

Written Exam for the B.Sc. or M.Sc. in Economics winter 2015-16

The Economics of the European Union

Final Exam

February 11, 2016

(3-hour closed book exam)

Please note that the language used in your exam paper must correspond to the language of the title for which you registered during exam registration. I.e. if you registered for the English title of the course, you must write your exam paper in English. Likewise, if you registered for the Danish title of the course or if you registered for the English title which was followed by “eksamen på dansk” in brackets, you must write your exam paper in Danish.

This exam question consists of 3 pages in total including this page

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1. Which of the following statements are correct? Remember to provide a brief explanation.

- (a) The Impossible Trinity states that a country cannot at the same time have full capital mobility, fixed exchange rate and independent monetary policy.
- (b) A fixed exchange rate imposes discipline on monetary policy.
- (c) The Eurosystem is comprised of central banks of monetary union members.
- (d) Discretionary fiscal policy is the automatic response of for example unemployment benefits when there is a downturn in the economy.
- (e) News that the Fed will tighten monetary policy should result in an immediate strengthening of the dollar.

2. ECB and monetary policy

- (a) Describe the objective of monetary policy in the European Monetary Union.
- (b) Give a brief description of the system of central banks and the voting system used in the Eurosystem.
- (c) It is often argued that central banks should be independent and accountable in order to fulfill its main goal of delivering price stability. Explain why it is important for central banks to be independent and accountable.
- (d) Compare independence and transparency of ECB to other central banks.

3. The Eurozone crisis

- (a) Describe the Boom-Bust theory.
- (b) Does this theory explain the current financial crisis? Motivate your answer.
- (c) Explain why Greece has a sovereign debt crisis.

- (d) What are the main arguments for bailouts?
- (e) Do the bailouts violate the European Treaty? Motivate your answer.