

Written Exam at the Department of Economics winter 2016-17

The Economics of the European Union

Final Exam

December 20, 2016

(3-hour closed book exam)

Please note that the language used in your exam paper must correspond to the language for which you registered during exam registration.

This exam question consists of 2 pages in total

NB: If you fall ill during the actual examination at Peter Bangsvej, you must contact an invigilator in order to be registered as having fallen ill. Then you submit a blank exam paper and leave the examination. When you arrive home, you must contact your GP and submit a medical report to the Faculty of Social Sciences no later than seven (7) days from the date of the exam.

Written exam for the B.Sc. or the M.Sc. in Economics The Economics of the European Union

December 20, 2016

Number of questions: This exam consists of 3 questions.

1. **Which of the following statements are correct? Remember to provide a brief explanation.**
 - (a) UIP describes a relationship between nominal and real interest rates.
 - (b) If the nominal exchange rate appreciates by more than the inflation differential, then the real exchange rate is appreciating.
 - (c) Mundell suggests that regions/countries form an optimum currency area if factors of production easily move across borders.
 - (d) The risk free short-term interest rates must be the same across all EMU member states.
 - (e) It is always beneficial to diversify since risk is reduced.
2. **Financial markets in a monetary union**
 - (a) What is the role of financial markets?
 - (b) How are financial markets affected by economic integration?
 - (c) There is a debate in EU and EMU about regulation and supervision of the financial sector and how banking failures should be carried out, at the national level or at the EU level. Describe the issues and discuss the main arguments for and against centralization.
3. **Economic growth in a monetary union**
 - (a) Describe the Solow growth model (the Solow diagram) including the main assumptions underlying the model.
 - (b) Describe how economic integration affects economic growth.
 - (c) Use the Solow diagram to illustrate the allocation effect and the medium-run growth effect.
 - (d) Are there other possible effects of economic integration on economic growth?
 - (e) What 'footprints' would these growth effects leave in the data? Have we observed such effects in countries that have joined EU at a later stage?