

Written Exam for M.Sc. in Economics autumn 2012-2013

The Economics of the EU

Master's Course

17 December 2012

(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.

If you are in doubt about which title you registered for, please see the print of your exam registration from the students' self-service system.

The answers to the questions enter with the following indicative weights:

Question 1: 75%

Question 2: 25%

Question 1 The importance of divergence for the functioning of the European Union

EU is constituted of 27 different Member States and a range of EU institutions with different roles vis-à-vis these Member States. In this question you are asked to analyse the importance of various economic differences for the functioning of the European Union.

Subquestion 1.a

Figure 1 (attached) shows the development of the HICP (Harmonised Index of Consumer Prices) of the European Union. Describe the development of the HICP from 1996 to 2012 as shown in the upper-right hand corner for Figure 1.

Subquestion 1.b.

Analyse the theoretical impact of the European Monetary Union on inflation and unemployment for Member States with different initial equilibrium inflation levels.

Subquestion 1.c.

Analyse the impact of the European Central Bank on the development of the level of inflation in the Euro area as you described in subquestion 1.a.

Subquestion 1.d.

Can the budget convergence requirements of the Stability and Growth Pact be rationalised in a way similar to the inflation convergence requirement of the Maastricht Treaty?

Subquestion 1.e.

Analyse whether there is a potential conflict between the inflation criterion of the Maastricht Treaty and the requirement for joining the ERM-II, where the scope to use the exchange rate as instrument?

Subquestion 1.f.

Analyse the importance of divergences in industrial structures among the EU Member States from 1973 – 1997 including in your analysis Figure 2 (“table 1”). The index takes the value zero if the industrial structure of the country is identical to that of the EU and the index values are higher the more different the structures are.

Question 1.g.

Analyse the theoretical impact according to the Optimum Currency Area theory of increased mobility of labour. Describe the challenges of the European Union in this regard using the comparison of mobility of labour between the United States and the European Union as shown in figure 3 (“table 1”).

Question 2 Welfare effects of a customs union

Analyse in general and in detail the theoretical effects of a customs union as shown in Figure 4 below.



Figure 1 Development of the HICP

Table 1 How different are countries from the rest of the EU?				
	70/73	80/83	88/91	94/97
Austria	0.314	0.275	0.281	0.348
Belgium	0.327	0.353	0.380	0.451
Denmark	0.562	0.553	0.585	0.586
Spain	0.441	0.289	0.333	0.338
Finland	0.598	0.510	0.528	0.592
France	0.204	0.188	0.207	0.201
G. Britain	0.231	0.190	0.221	0.206
Germany	0.319	0.309	0.354	0.370
Greece	0.531	0.580	0.661	0.703
Ireland	0.701	0.623	0.659	0.779
Italy	0.351	0.353	0.357	0.442
Netherlands	0.508	0.567	0.547	0.517
Portugal	0.536	0.478	0.588	0.566
Sweden	0.424	0.393	0.402	0.497
Weighted average	0.326	0.302	0.33	0.351

Figure 2 “Table 1” Divergence of industrial structures to the rest of the EU

Table 1 – Comparison between the EU and the US, 2008

	US	EU-27	EU-15	CEECs
Share of working age residents who moved from a different region of the EU/US state	2.80%	1.21%	1.46%	0.38%
Share of working age residents who moved from a different region/state of the same country	2.80%	1.03%	1.26%	0.24%
Share of working age residents who moved from a EU country/US state	2.80%	0.18%	0.20%	0.14%
Share of working age residents who moved from outside the EU/US	0.74%	0.19%	0.23%	0.03%

Source: Eurostat, US Census Bureau, DG REGIO calculations

Figure 3 "Table 1" Comparison of labour mobility EU and the US

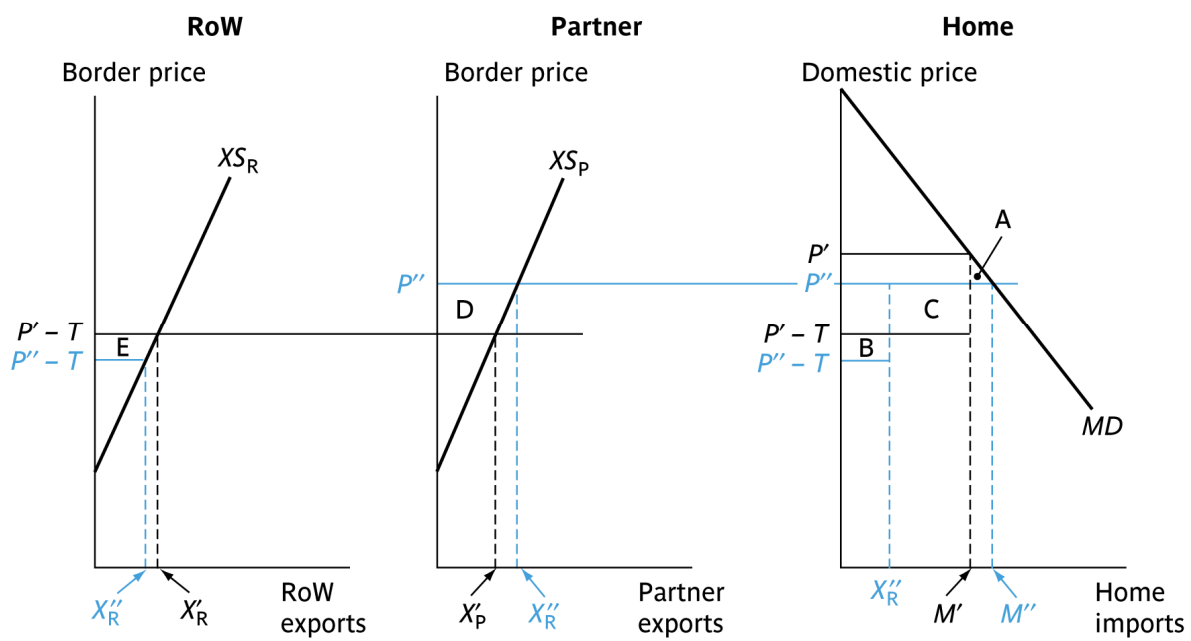


Figure 4 Welfare effects of a customs union