

Written Exam for the B.Sc. or M.Sc. in Economics, Winter 2010/2011

Economics of the EU

Elective Course

13 DEC 2010

(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.

Question 1.

In appendix 1 you find some debt statistics of the EU Member States. Make the assumption that the average growth rate of the economies of the EU Member States is 2% per year, and make the simplified assumption that all Member States have this (same) growth. Then on that background – and still using the table in Appendix 1 - comment on the impact in 2010 on the debt levels of the EU and the various Member States of three different scenarios of nominal deficits:

- A) nominal deficit 1% of GDP of all member states.
- B) nominal deficit 3 % of GDP of all member states.
- C) nominal deficit 5% of GDP of all member states.

Use, for instance, the gross debt ratio of 2010, as benchmark for your analysis.

Assume then, hypothetically, that the debt levels of the EU Member States in 2010 as shown in Appendix 1 actually are indicative of a steady state level of debt (with no increase in debt over time). Estimate under that assumption the level of government

deficit needed to stabilize the government debt at this level (growth still assumed to be 2%).

Comment on these results in the light of the debt/deficit challenges – some say crisis – of the European Union Member States, especially, Portugal, Ireland, Greece and Spain.

Apart from the debt and deficit criterion, describe, finally, the other main nominal and real convergence indicators used by analysts to determine whether Member States are ready to join either the ERM-II or the EMU.

Question 2

Using, for instance, the graph in Appendix 2, describe the standard gains from trade argument in a partial equilibrium framework.

Extend this analysis to a preferential trading area with at least three countries, and explain, the effects of trade creation and trade diversion in this context.

Compare these results with the results, i.e. the distribution of gains and losses between countries, in a general equilibrium framework.

What could the expected effects of the creation of a monetary union, such as the EMU, be on the trade, including the trade creation and trade diversion effects analysed in this question.

What are the expected effects of free trade on the number of firms in the integrated market?

And, finally, what are the expected effects on free trade on the number of firms, their total sales, the prices, and ultimately the size of firms under:

- full competition.
- perfect collusion.
- partial collusion.

Question 3

Analyse EU's financial perspectives from 2007-2013.

Include in among other relevant issues in your analysis, the influence of the European Parliament on the yearly budget of the European Union.

Comment on whether the budget of the EU may be used or has been used to combat increased economic diversiveness across regions/member states in the EU – both theoretically and empirically.

Describe also various views regarding whether European integration leads or has led to more or less specialization interindustry as well as intra industry.

Appendix 1

Table I.1.3: Composition of changes in the government debt ratio in EU Member States (% of GDP)

	Gross debt ratio					Change in debt ratio 2007-11	Change in the debt ratio in 2007-11 due to:		
	2007	2008	2009	2010	2011		Primary balance	Interest & growth contribution	Stock-flow adjustment
BE	84.2	89.8	96.7	99.0	100.9	16.7	2.2	8.5	6.0
DE	65.0	66.0	73.2	78.8	81.6	16.5	2.2	8.4	5.9
IE	25.0	43.9	64.0	77.3	87.3	62.3	35.5	14.6	12.2
EL	95.7	99.2	115.1	124.9	133.9	38.2	19.7	15.0	3.5
ES	36.2	39.7	53.2	64.9	72.5	36.3	25.7	7.2	3.4
FR	63.8	67.5	77.6	83.6	88.6	24.8	15.6	5.9	3.4
IT	103.5	106.1	115.8	118.2	118.9	15.5	-1.0	14.8	1.7
LU	6.7	13.7	14.5	19.0	23.6	16.9	3.4	0.5	13.1
NL	45.5	58.2	60.9	66.3	69.6	24.1	7.0	5.9	11.2
AT	59.5	62.6	66.5	70.2	72.9	13.4	2.2	6.2	5.0
PT	63.6	66.3	76.8	85.8	91.1	27.5	16.4	8.9	2.2
SI	23.4	22.6	35.9	41.6	45.4	22.0	12.2	4.3	5.5
FI	35.2	34.2	44.0	50.5	54.9	19.7	-0.3	3.4	16.5
MT	61.9	63.7	69.1	71.5	72.5	10.6	3.2	5.7	1.7
CY	58.3	48.4	56.2	62.3	67.6	9.3	9.1	4.0	-3.8
SK	29.3	27.7	35.7	40.8	44.0	14.7	14.8	1.0	-1.1
EA-16	66.0	69.4	78.7	84.7	88.5	22.5	9.0	8.7	4.9
BG	18.2	14.1	14.8	17.4	18.8	0.6	3.8	-0.4	-2.8
CZ	29.0	30.0	35.4	39.8	43.5	14.6	13.7	3.8	-3.0
DK	27.4	34.2	41.6	46.0	49.5	22.1	1.9	6.0	14.2
EE	3.8	4.6	7.2	9.6	12.4	8.6	7.9	1.6	-0.9
LV	9.0	19.5	36.1	48.5	57.3	48.3	24.0	14.0	10.3
LT	16.9	15.6	29.3	38.6	45.4	28.5	23.9	5.6	-1.0
HU	65.9	72.9	78.3	78.9	77.8	11.9	-1.6	10.2	3.3
PL	45.0	47.2	51.0	53.9	59.3	14.3	14.4	-0.5	0.3
RO	12.6	13.3	23.7	30.5	35.8	23.3	23.1	1.0	-0.8
SE	40.8	38.3	42.3	42.6	42.1	1.3	-2.6	0.7	3.2
UK	44.7	52.0	68.1	79.1	86.9	42.2	28.2	5.4	8.6
EU-27	58.8	61.6	73.6	79.6	83.8	25.0	11.5	9.7	3.8

Notes: Differences between the sum and the total of individual items are due to rounding.

Source: Commission services' Spring 2010 Economic Forecast.

Appendix 2

