

**Economics 0063** (Call # 03875)

**THE ECONOMICS OF THE EUROPEAN UNION**

Braker 225, Mondays and Wednesdays 10:30 — 11:45pm (E+).

September 5, 2012

**Professor Yannis M. Ioannides**

**Department of Economics**

Braker 116b. Phone: 617.627.3294. Email: [yannis.ioannides @ tufts.edu](mailto:yannis.ioannides@tufts.edu)

[www.tufts.edu/~yioannid](http://www.tufts.edu/~yioannid) <http://econpapers.repec.org/RAS/pio6.htm>

12 Fall EC0063 syl.tex:

Office hours: Mondays, 1:30–3:30pm; Wednesdays, 5:45 –6:45pm. Other times by appointment. You may also contact me by email in order to communicate with me or set up an appointment for a time other than my office hours.

## 1 Course Description

The course uses economic models to understand the development and functioning of the European Union. Particular topics will look at include European economic integration, customs union and the single market; free movement of labor and capital; monetary unification; the European Central Bank versus the US Federal Reserve System; monetary versus fiscal policy; regional policy; the European crisis. The course will examine external trade policies and economic benefits and costs of joining the union for small versus large countries, and the euro as an international currency. The course will particularly emphasize the European crisis, which is actually serious enough to be threatening the Eurozone's survival.

The European Economic Community has grown from a common market of six countries in 1958 to the current twenty seven-member European Union. Ten new members from Central, Eastern and Southern Europe joined in May 2004, and Bulgaria and Romania joined as of January 1, 2007. Seventeen countries (with Slovakia and Estonia the latest ones to join, January 1, 2009, and 2011, respectively) now share a common currency, the euro, which has replaced several national currencies. Individuals and firms may now move freely within the European Union. Numerous barriers to trade within the European Union have disappeared, but many still remain. EU-wide institutions are entrusted with decisions about investments in human and physical infrastructure and technological development. They are overseen by

a Europe-wide elected parliament. Still, the EU institutions amount to a mere fraction of US federal institutions.

How has increasing European economic integration affected the structure of individual European economies? Has it affected the rest of world? How has adoption of a common currency affected the European economies and the world economy? What does the European Union do and what are its prospects for the future, politically and economically? The European Union looks very much like the United States, but is it? Some formerly poor countries have grown rich since they entered the European Union. Will the European Union strengthen further its wealthy members and increase disparities, or is it now having an equalizing effect? How will the European Union resolve its current economic and political difficulties, in the aftermath of the Great Recession of 2007–2009, the onset of the European debt crisis and its frightening continuation.

The macroeconomic aspects of European economic integration are particularly emphasized in this class. (The corresponding chapters of the book have been updated from earlier editions.) The European Central Bank is entrusted with policies that affect price stability and employment, but at the same time, the governments of the member nations still exercise sovereignty in ways (including fiscal policy) that also have bearing on macroeconomic conditions and economic development and have not been experienced before in the world economic stage. Britain, Denmark and Sweden are members of the European Union but have not adopted the common currency. Several of the latest entrants are economically much less developed than older members. What is the likely impact of the two latest enlargements?

This course will provide some essential tools from international trade and will use models from macroeconomics and international economics to better understand such issues. It will study specific aspects of trade, regional and macroeconomic policy and institutions.

## 1.1 Requirements

The course grade will be based on students' performance in

- *group poster session*, along with individual reports to accompany the presentation, to count for 10 % of the course grade.
- a midterm exam, to count for 30% of the grade;
- a final exam, to cover material after the midterm and count for 30% of the grade;
- a research paper, to count for 25% of the grade;
- class participation, to count for 5% of the grade.

### 1.1.1 Important dates

Please note the following dates:

- Wednesday, *October 3*: *group poster session*, along with individual report to accompany the presentation, to count for 10% of the course grade. This date is determined so as to give you feedback by the course drop date on October 9, 2012. More details on this requirement are given further below.
- Monday, October 8, Columbus Day observance, *no class*.
- Tuesday, October 9, Columbus Day makeup *class!*
- Monday, November 12th, university holiday, *no class*.
- paper *proposal*: due on Wednesday, *October 17*.
- Monday, *November 5*: *midterm*.
- Monday, November 12, Veterans Day observance, *no class*.
- the *research paper* (maximum 15 pages): due on Monday, *December 10*, at the latest. The more original the shorter the paper can be.
- Monday, December 10, *last class*.
- Friday, *December 14, 12:00–2:00pm, final exam*. This is the day that the final exam is scheduled by the University and will *not* be moved. Please do **not book** flights that conflict with this date.

About four classes towards the end of the term will be devoted to class presentations of your own papers. In view of the size of the class, it may be necessary to group the presentations. This is an integral part of the class, and attendance will be compulsory.

Please read

<http://uss.tufts.edu/studentaffairs/publicationsandwebsites/AcademicIntegrity.pdf>.

Matters of academic integrity are very important and violations will not be tolerated.

All deadlines will strictly be adhered to. They are designed to spread the work over the entire term and to allow you to be ready for brief class presentations at the end of the term. The grade for the paper will be made up of 5% from the proposal, and the remainder from the final version. I put a lot of emphasis on the quality of the research effort. It also helps me provide you with timely feedback on your ideas. The more precise and better researched your proposal the better!

I am typically very flexible about paper topics, and the paper proposal requirement is designed to help you focus your search for a topic in a timely fashion and to do adequate research to ensure that it may be done within the confines of the term. However, with this said, you should note that you could combine your research with your class presentation of your group project.

Here is sample of paper topics from earlier years. Fall 2007 was the last time the course was offered.

“The European Union’s Regional Policy: An Assessment of Greece and Ireland.” “The Effects of Implementation of the Constitutional Treaty on Labor Market Mobility within the European Union.” “Common Agricultural Policy and the European Union: A Critical Analysis of CAP Reform” “The UK and the Euro.” “Lisbon Strategy: Why Some Countries Excel and Others Falter.” “Norway and the European Union.” “Ethnic Minorities in Europe: Past, Future and Economic Significance.” “Labor Migration and EU Expansion: Turkey and Germany.” “Minimum Wage and the European Union.” “Guest Workers in the EU: Asset or Hindrance?” “Attracting Highly Skilled Labor to the European Union.” “ ‘Yes,’ ‘*Oui*,’ ‘*Si*,’ ‘*Ja*,’ ‘*Na?*,’ ‘*Sim*’ to Turkey?” “*Sonderfall*: Switzerland’s Political Uniqueness and EU Independence.” “The European Union versus the *Mercosur*.” “European Automobile Prices: Cheaper Cars Are Now Available.” “The Future International Currency.” “Bulgaria’s Economy in Relation to EU Accession.” “ EU Regulations on Agricultural Biotechnology and their Effect on Trade.” “2004 Enlargement and the CAP.” “The Implications of the Accession of a Divided Cyprus.” “French Economic Effects of Polish European Integration: The ‘Polish Plumber.’ ” “EU’s Emission Trading Scheme,” “Health Care Systems and EU Policy.” “Energy Trade between Russia and the European Union.” “Greece and Immigration.” “*La Banlieu* in France.” “European Interdependence and Peace.” “When Will Hungary Be Ready for the Euro?” “Ireland’s Cohesion Success Story: Special or Repeatable?” ”Impact of Immigration on the New EU Members.” ”Is Britain’s Rebate still Justified?” ”Europe without Borders: The Transportation Challenge.” ”The Implications of Turkey’s Accession to the EU.” ”The Parisian Underground Army of Workers: Chinese Immigrants and their Effects on France’s Economy.” “The Euroization of Montenegro.” ”The Pound and the Euro.” ”Economics of Human Trafficking in the EU. ”

The list is about the past. As of the time of writing, the European crisis is very threatening, and I encourage topics related to it. Several possibilities are offered by economic history. For example, the breakup of the Austro-Hungarian Empire and the breakup of the Soviet Union resulted in countries’ changing currencies and caused widespread disruptions. Others by the dilemmas facing small countries like Finland.

### 1.1.2 Group poster session and class presentations

In order to help focus on some key issues through the bewildering maze and fantastic volume of materials, and fast-evolving facts on the European Union, a list of topics have been chosen and will be used as follows. The class will self-organize into groups in rough proportion to the volume of anticipated work. The groups will be responsible for producing a virtual (electronic) poster (such as a powerpoint presentation) and a fact sheet. The material will be put online, assigned as reading and discussed in class on October 3rd. The grade on the project will depend on the quality of the poster, as rated by the class, and the quality of your own individual report and of the (group) fact sheet.

- First, a group poster session, scheduled for September 26 during class time, will involve posters on the basic topics to be finalized. All members of the class will grade the posters. To ensure full participation I will also want to get from each of you an individual report on your exact role in the team that is responsible for the respective poster.

Your own individual poster session report (suggested length: 2 typed pages) will consist of:

1. a copy of basic fact sheet that your group produced for the poster session.
2. a brief description of your individual contribution and how the group shared the tasks.

I will, of course, explain what a poster session is!

Your participation in this activity is compulsory. You may choose which activity to join, but I reserve the right to make sure that the assignment of work is fair. I anticipate a commitment of effort roughly proportional to the number of students indicated below.

1. The Enlargements of 2004 and of 2007 [ 5 students ]
2. Denmark, Sweden and the United Kingdom: Why *Yes* to the EU but *No* to the Euro? [ 2 students ]
3. Cohesion [ 1 student ]
4. Prospects for candidate countries [ 3 students ]
5. The cases of Norway and Switzerland [ 2 students ]
6. The European Union and the United States [ 2 students ]
7. The European sovereign debt crisis [4 students ]

8. The European Union and the world economy [ 1 students ]
9. The European Union and the less developed countries [ 1 student ]
10. Refugees, asylum seekers, and illegal immigration [ 2 students ]

This same list on line, under assignments in the Trunk site, will be augmented with the emails of the group members, once they have been formed.

The topics are chosen from the viewpoint of providing full coverage of the assigned topic. But they are tentative, and we will discuss possibly different topics in class. It is quite alright — a good idea, in fact — if you were to choose a paper topic that is closely related to one of the above topics, but you do not have to. For this reason, the assignment of poster presentations will be made by Wednesday, September 19, so that you have a better idea of what you want to do your research on.

Regarding the *paper proposal*, due on Wednesday, October 17. please note that I will be prepared to react to it in terms of its topic, coverage, suitability, scope, etc. but also as a text. The proposal, maximum 3 pages, will consist of a narrative description of the topic, what has been done so far, how you propose to go about the subject and a maximum one-page of references. It should be written with care so that it may be graded as a writing assignment as well.

## 1.2 Books and other resources

The fourth edition of an excellent textbook

- **Baldwin, Richard, and Charles Wyplosz,**

*The Economics of European Integration*, fourth edition,

McGraw-Hill, 2012. ISBN: 9780077131722

has been ordered and is available for your purchase at the Tufts Bookstore. The book will also be on reserve in Tisch, as soon as it is received. Reading assignments below, e.g. in the form of “Chapter 10,” refer to Baldwin and Wyplosz, unless otherwise indicated. A number of articles are referred to below but will be used to a much lesser extent most of the time and in an auxiliary fashion only. This is indicated below by means of an asterisk (\*). A book is a bit more advanced, because it is pitched to sophomores in Europe, but I will avoid the most technical material and will provide additional material and guidance, when necessary.

The textbook also contains extensive documentation of additional resources, including web-based resources, at the end of every chapter that will help you in broadening your reading, preparing for class presentations and conducting your research. In addition, I strongly

urge you to follow the site [voxeu.org](http://voxeu.org), that regularly hosts a lot of topical studies, interviews, and contains several ebooks, all free. In addition, there are the following sites focusing on countries in trouble:

- [www.euro-nomics.org](http://www.euro-nomics.org).
- Nada es Gratis: <http://www.nadaesgratis.es/> [in Spanish]
- The Irish Economy: <http://www.irisheconomy.ie/> [in English]
- Greek Economists for Reform:  
<http://greekeconomistsforreform.com/> [in English and Greek]
- The Portuguese Economy: <http://theportugueseconomy.blogspot.com/> [in English]

The publisher maintains a site, which has helpful summaries and weblinks, and I urge you to explore it:

[http://higher.ed.mcgraw-hill.com/sites/007713172x/student\\_view0/](http://higher.ed.mcgraw-hill.com/sites/007713172x/student_view0/)

A web site has been set up for this class at: <http://trunk.tufts.edu>. It will be used for course administration, including announcements, placement of class materials of various kinds, including details on assignments and external links for web resources. Material there will accumulate, and I urge you to check it out regularly. It also includes links to the publisher's site. Please also note subdirectory titled Ioannides EU "blog", with links to current postings in the press.

We will draw from material on line in order to acquire background for the various topics we take up during the term. It is especially useful for the group poster session and class presentations. Just go there, select the course and follow the instructions about how to login. If you are not yet registered for the class, you may enter as "guest" and then let me know, giving me your email address, so that I may register you on the site. At some point, I will need to discontinue guest access.

Only materials that are not otherwise accessible by you electronically are placed on line at the course Trunk site. My lectures in pdf will become available there as we move along.

The European sovereign debt crisis has dominated the press for a long time, and there is a vast amount of material on it online. Many economics papers are available at [www.nber.org](http://www.nber.org) and [www.cepr.org](http://www.cepr.org). To download such documents for free, go to the main library site,

[www.library.tufts.edu](http://www.library.tufts.edu)

click on **database finder**, then click on **N**, then click on **NBER working papers**, or on **CEPR discussion papers**, and then find the actual paper. You may work in like manner for electronic journals, again going through the catalog of the main site of the library.

## 2 Class Schedule and Reading List

\* denotes more advanced, optional, material.

### 2.1 Introduction: History and Institutions

From the customs union of the European Economic Community — from the Six to the Nine to the Ten to the Twelve — to Economic and Monetary Union in Europe. Spending and Revenue, and European Institutions.

- Chapter 1, 2.

### 2.2 Decision Making

Subsidiarity, fiscal federalism

- Chapter 3

### 2.3 Essential microeconomic tools for open economies

The facts of international trade: Tariffs and other forms of protection, costs and benefits. Industry protection.

- Chapter 4
- Baldwin, Richard, “World Trade Facts,” in `trunk.tufts.edu`, under “course resources.”
- See document “MS-MD Diagram Explained,” under course resources.

### 2.4 Preferential liberalization, market size and scale effects

Trading blocks, customs union versus free trade agreements. Impact on those outside. Larger markets, economic efficiency and competitiveness.

- \* Chapter 5
- See “PTA (Preferential Trade Agreement) Diagram explained,” under course resources.



## 2.5 Growth and factor market integration

From the removal of trade barriers and creation of the Single Market to complete freedom for EU citizens to relocate within the EU. Does free movement of capital and labor across the European Union accelerate growth? Impact on individuals states versus on the entire EU.

- Chapter 7

## 2.6 Economic Integration, Labor Markets and Migration

- Chapter 8

## 2.7 An Assessment of the *Real* Effects of the EMU

(Real, that is non-monetary).

- \* Lane, Philip R., “The Real Effects of European Monetary Union,” *Journal of Economic Perspectives*, 20, 4, Fall, 2006, 47–66. On Trunk, under ‘course resources.’

## 2.8 Location of Industry, Economic Geography and Regional Policy

Economic integration causes relocation of industry and new economic agglomerations and change the spatial distribution of economic activity. Can regional policy affect these processes? European Union Cohesion and the European Union “periphery.”

- Chapter 10
- \* Combes, Pierre-Philippe, and Henry G. Overman, (2004), “The Spatial Distribution of Economic Activity in the European Union,” 2845–2909, in Henderson, J. Vernon, and Jacques-Francois Thisse, eds., *Handbook of Urban and Regional Economics*, Volume 4, North-Holland; downloadable from <http://cep.lse.ac.uk/pubs/download/dp0587.pdf>
- \* European Commission, Cohesion Fund overview and evolution, 2007–2013 [http://ec.europa.eu/regional\\_policy/sources/docgener/informat/](http://ec.europa.eu/regional_policy/sources/docgener/informat/)  
Main site:

pdf/nsrf\_cover\_en.pdf

[http://ec.europa.eu/regional\\_policy/index\\_en.cfm](http://ec.europa.eu/regional_policy/index_en.cfm)

\* European Commission, various years, 1st – 5th Cohesion Reports:

Downloadable material

[http://ec.europa.eu/regional\\_policy/sources/docoffic/official/repor\\_en.htm](http://ec.europa.eu/regional_policy/sources/docoffic/official/repor_en.htm)

- Successes and failures: regions will be selected and respective papers discussed from the *European Investment Bank Cahiers/Papers*, (2000) Vol. 5, No. 1 and No. 2. Available on online. See **External Links** in **Trunk**.
- Tabellini, Guido, “Culture and Institutions: Economic Development in the Regions of Europe.” *Journal of the European Economic Association*, 2010 8(4):677–716 [on Trunk]
- \* Boldrin, Michele, and Fabio Canova (2001), “Inequality and Convergence in Europe’s regions: Reconsidering European Regional Policies,” *Economic Policy*, 32, April, 205–253.

## 2.9 Monetary Integration: Essential Macroeconomic Tools

International macroeconomics and exchange rate regimes. Fixed versus variable exchange rates: benefits and costs to individuals and entire economy. Effects on trade and on exercise of macroeconomic policy.

- \* Chapter 13

## 2.10 Monetary History and the European Monetary System

A brief survey of the history from the Gold Standard and the Bretton Woods system to the European Monetary System to the common currency.

- \* Chapter 14

## 2.11 Optimum Currency Areas and European Monetary Union

When does it make sense for a group of countries to adopt a single currency? How will the common currency affect macroeconomic performance? How is the European Monetary Union functioning?

- Chapter 16, 17

- Rose, Andrew K., “Currency Unions,” *The New Palgrave Dictionary of Economics*, see under `Trunk.tufts.edu`.
- Why say no to the Euro? Denmark, Sweden and the United Kingdom.  
Flam, Harry *et al.* *EMU at Ten. Should Denmark, Sweden and the UK Join?* SNS Economic Policy Group Report, SNS Förlag, Stockholm, 2009.  
<http://www.sns.se/sites/default/files/kr-2009-rapport-eng.pdf>

## 2.12 Monetary versus Fiscal Policy and the Stability and Growth Pact

How does the common currency affect macroeconomic policy?

- Chapter 18
- Pollard, Patricia (2003), “A Look inside Two Central Banks: The European Central Bank and the Federal Reserve,” *Review*, Federal Reserve Bank of Saint Louis, January/February, 11–30; downloadable from  
<http://research.stlouisfed.org/publications/review/03/01/Pollard.pdf>
- Krugman, Paul, “The Euro is Flat,” NY Times, June 6, 2012,  
<http://krugman.blogs.nytimes.com/2012/06/22/the-euro-is-flat/>
- A comparison with the US Union:  
Reinhardt, Uwe E., “How Richer [U.S.] States Finance Poorer Ones,” NY Times, April 2012,  
<http://economix.blogs.nytimes.com/2012/04/27/how-richer-states-finance-poorer-ones/>
- The real problem:  
Krugman, Paul, “Lessons of Massachusetts for EMU,” 241–266, Giavazzi, Francesco and Torres, Francisco, eds., *Adjustment and Growth in the European Monetary Union*, Cambridge University Press, 1993.

## 2.13 Financial markets, the euro and the rest of the world

What are the implications of the EMU for the world economy? For the US? Will the Euro emerge as an international currency? What are the benefits and costs? This is developing into a vast and to some extent speculative topic. Yet, it is on many people’s minds.

- Chapter 18
- Chapter 19
- \* Rey, Helene, *et al.* (2005), “The Impact of a Five Year Old Euro on Financial Markets,” lecture, in *The Euro at Five: Ready for a Global Role*,” Institute of International Economics, Washington, Adam Posen, editor, April 2005.  
<http://www.princeton.edu/~hrey/paneuro5.pdf>
- \* Dominguez, Kathryn M. E., “The European Central Bank, the Euro, and Global Financial Markets,” *Journal of Economic Perspectives*, 20, 4, Fall 2006, 67-88. On Trunk, under ‘course resources.’  
<http://www.nber.org/papers/w11510>
- \* Posen, Adam S., ed. (2005) *The Euro at Five: Ready for a Global Role?*, Institute of International Economics, Washington DC.  
This book contains several interesting readings, in addition to the one by Rey *et al.*, above, and appears to be **downloadable**  
— click chapter by chapter — from:  
<http://bookstore.iie.com/petersoninstitute.org/book-store/3748.html>
- See Institute of International Economics site for additional material:  
<http://www.iie.com/>

### 3 Current issues: The Crisis

- Chapter 19
- Lane, Philip (2012) “The European Sovereign Debt Crisis.” *Journal of Economic Perspectives*, 26, 3: 49–68.  
<http://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.26.3.49>
- Broader aspects of the crisis  
\* Reinhart, Carmen M., Vincent R. Reinhart, and Kenneth S. Rogoff (2012) “Public Debt Overhangs: Advanced Economy Episodes Since 1800.” *Journal of Economic Perspectives*, 26, 3, 69–86.  
<http://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.26.3.69>

- Crook, Clive, Bloomberg, “The Seeds of the EUs Crisis Were Sown 60 Years Ago.”  
<http://www.bloomberg.com/news/2012-05-23/the-seeds-of-the-eu-s-crisis-were-sown-60-years-ago.html>
- Ewing, Jack, “In Euro Crisis, Fingers Can Point in All Directions,” *NY Times*,  
<http://www.nytimes.com/2012/08/25/business/global/in-euro-crisis-plenty-of-blame-to-go-around.html?pagewanted=all>
- Breakup?  
 Eichengreen, Barry (2010) “The Breakup of the Euro Area.” In Alesina, Alberto, and Francesco Giavazzi, eds. *Europe and the Euro*, The University of Chicago Press.  
<http://www.nber.org/chapters/c11654.pdf>  
 \* Wolfson Economics Prize 2012, “Leaving the Euro: a Practical Guide.”  
<http://www.policyexchange.org.uk/images/WolfsonPrize/wolfson%20economics%20prize%20winning%20entry.pdf>  
 And an entry to the competition by an **eleven-year old Dutch boy!**  
<http://www.policyexchange.org.uk/images/WolfsonPrize/wep%20special%20entry%20-%20jurre%20hermans.pdf>  
 Wright, Thomas (2012) “What If Europe Fails?” *The Washington Quarterly*, 35, 3, 23–41 <http://dx.doi.org/10.1080/0163660X.2012.703584>  
 Will the crisis affect human capital accumulation?  
 Financial versus real national wealth: Reinhardt, Uwe (2002) “What Is the ‘Wealth’ of a Nation?”  
<http://www.princeton.edu/~reinhard/pdfs/WEALTH-ECON-100-2002.pdf>
- Political contrasts between EU and US:
- Problems, as identified:  
 Alesina, Alberto, and Roberto Perotti, “The European Union: A Politically Incorrect View,” *Journal of Economic Perspectives*, 18, 4, 27–48, Fall 2004.  
<http://pubs.aeaweb.org/doi/pdfplus/10.1257/0895330042632780>
- Financial issues are not eliminated in the US federation:  
 Alesina, Alberto, and Daniel Nadler, “A Tale of Two Divergences,” April 2012,  
<http://www.voxeu.org/article/tale-two-divergences>

\* Daniel J. Nadler and Sounman Hong, “Political and Institutional Determinants of Tax-Exempt Bond Yields.” Harvard Department of Government, 2011.

[http://www.hks.harvard.edu/pepg/PDF/Papers/PEPG\\_11-04\\_Nadler\\_Hong.pdf](http://www.hks.harvard.edu/pepg/PDF/Papers/PEPG_11-04_Nadler_Hong.pdf)

- The longer-run perspective:

Reinhart, Carmen M., and Kenneth S. Rogoff (2011) “From Financial Crash to Debt Crisis.” *American Economic Review* 101: 1676–1706.

<http://pubs.aeaweb.org/doi/pdfplus/10.1257/aer.101.5.1676>