

The Political Economy of European Integration

Problem Set 1

(This problem set is due on Monday, February 6th 2012 in class)

Problem 1

How far has the ceding of sovereignty to supranational institutions influenced the course of the economic integration within Europe? Should EU have a constitution? Discuss your answers.

Problem 2

- (a) Briefly explain what we mean by trade creation.
- (b) When the original six members founded the EEC trade creation was dominant. Imports from EU countries to UK increased when the UK joined the EU. Does this mean that the UK was better off? Explain your answer using a diagram if appropriate.

Problem 3

Review the reasoning that justifies consumer and producer surplus. Then solve the following problem:

1. In 2007, UK imported oil. Nevertheless, the UK can produce its own oil (or other alternative source of energy) and, for sure, the UK could gain if they restricted and, finally, ended oil imports. In this respect we define the demand and supply of oil in the UK as follows:

$$P = 291 - 40 Q_D \text{ and } P = 0,5 + 35 Q_S.$$

- a) With free trade and an international price of 67\$ per barrel, how much oil does the UK produce domestically? How much does it consume and import?
- b) If the UK stopped all import of oil, how much oil would be produced and consume in the UK? At which price?
- c) In terms of welfare, which group in the UK would gain from stopping importing oil?
- d) However, the government thinks of adopting a softer policy by imposing a tariff on imports. The value of the tariff is 5\$ per barrel, and we consider that this policy would not have an impact on the international oil market. How much oil does UK produce, consume and import now? What is the change in the welfare by passing from an open economy to an open economy with tariff?

Problem 4

Download the Excel file associated to this Problem Set from the course website at: <http://rosellanicolini.com/sstudyabroad.htm>

- For three EU countries of your choice identify: GDP per capita, real GDP growth rate, labor productivity. Graph these data in three separate pictures and make a comparison with the correspondent EU-15 series.
- For each country and each indicator, discuss the result providing explanations for (possible) differences between country and EU-15 evolutionary trend across time.

Problem 5

- Several current EU members lost their colonies (above all in Africa) during 50s and 60s. Many colonial expeditions were launched to increase a country's land, population, but also endowment of natural resources. Can colonial wars make a victorious county richer or poorer? Discuss your answer and, if possible, provide examples.
- How can the Solow model explain that nowadays workers use a vast array of highly efficient equipment such as powerful machinery and computers ?

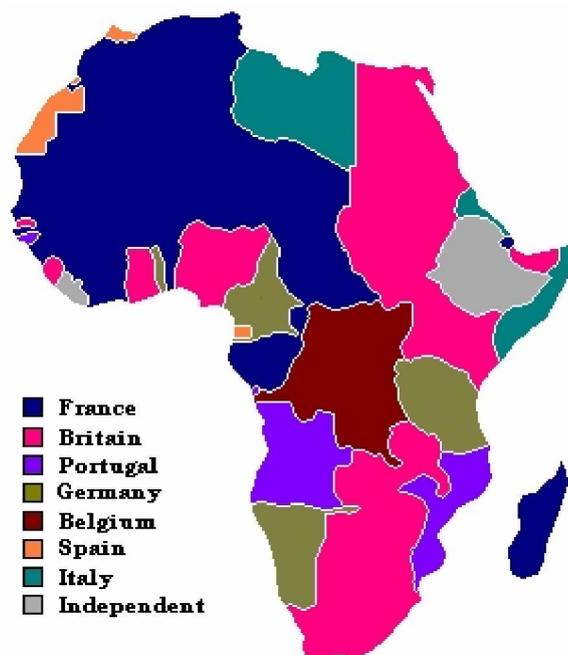


Figure 1: European Colonies in Africa (beginning 1900s)