

## The Political Economy of European Integration

### Problem Set 2

(This problem set is due on Wednesday, February 29<sup>th</sup> 2012 in class)

#### Problem 1

- (a) When the Single Market was launched, European leaders asserted that it would improve the competitiveness of the European firms. Is it true? Discuss your answer.
- (b) How could you explain the creation of big national or transnational corporations (such as Vodafone)? Discuss with a graph, if appropriate.

#### Problem 2

- (a) What is the effect on the labour market of a minimum wage that is actually lower than the equilibrium wage? Show graphically the new equilibrium wage and the level of employment
- (b) It is often claimed that Europe's unemployment problem is due to high labour taxes in the form of employer and employer contributions security. According to Nobel E. Prescott, this is also one possible cause of productivity gap between EU and US. Is it true? Argue your answer with data or case studies.

#### Problem 3

Read carefully this statement and then, answer to the questions :

*“Indian workers earn only \$ 0.95 per hour. India clearly displays comparative advantages in labor intensive products and these advantages will last forever. If we allow India to export as much as it likes, our workers' wage will be forced down the same level”.*

- Is this statement true? Why? Discuss.
- Can Indian wages keep on being so low forever? Why? Discuss
- What is the mechanism of fixing wages in a competitive market? Is it true that our wages will be forced down? Why? Discuss.

#### **Problem 4**

One of the immediate consequences of opening the borders between the East and West Germany was the potential for migration between the two regions. Because of a more productive capital stock and more know-how, wages in the West were about three times as much as those in the East. Consequently, many East Germans moved to West. What are the consequences for this migration for real wages (a) in West Germany, (b) in East Germany? (c) for the employment in the two regions? Can you explain why West German trade unions were eager to organize their comrades in the East?

#### **Problem 5**

A housekeeper from Romania is contemplating immigrating to France in search of higher wages. Suppose that the housekeeper earns approximately 8,000€ per year and expects to find a job in France worth approximately 20,000€ annually for a period of three years. Furthermore, assume that the cost of living in France is 8000€ more per year than at home.

- (a) What can we say about the productivity of housekeepers in France versus Romania? Explain
- (b) What is the total gain to the housekeeper from migrating?
- (c) Is there a corresponding gain for the employer in France?

#### **Problem 6**

Empirical evidence shows that convergence is taking place among rich countries (or regions) and not between rich and poor countries (or regions). How could you explain this fact by using the principles we discussed in class?

#### **Problem 7**

Please refer to the KK-EE diagram. Show the economic geography of the EU might change if:

- (a) Transport costs lower
- (b) Agglomeration forces get weaker (for instance, grant a subsidy to firms in the small region)
- (c) Immigration flows get stronger.

#### **Problem 8**

Outline the structure and the evolution of the EU regional policy.

- (a) Are they successful?
- (b) European countries become more specialized because of the integration process. Is it possible to design a European policy to stop this specialization process?
- (c) Did EU regional policy have a positive effect on the EU economic structure? And what about CAP? Have there been any notable successes?

Discuss with data when appropriate.