

The Political Economy of European Integration

Problem Set 3

(This problem set is due on Monday, March 26th 2012 in class)

Problem 1

In what sense does the creation of the Euro-area help to 'complete the single market'? What other effects does the creation of the Euro-area have?

Problem 2

Should new members attach much urgency to adopting the Euro as their national currency? Is the case for early Euro adoption for different countries?

Problem 3

We discussed two sorts of reserves: bank reserves and foreign exchange reserves. Carefully distinguish between them.

Problem 4

Describe the different ways in which the government may intervene in the foreign exchange market.

- a) Can EU governments behave like that?
- b) Summarize the strategy to face the current crises of the EURO. Which is or are the cause(s) of these crises? Are the strategies of intervention the most proper ones ?

Problem 5

You are the central banker for a EU Transition country that is considering the adoption of a new nominal anchor. When you take the position of chairperson, the inflation rate is at 4% but you need to fulfill Maastricht criteria within the next year.

- Do you need an anchor? If so, why and which one?
- Is a nominal anchor important, for you, to achieve the inflation target? Why?

Problem 6

Discuss the Taylor rule and the targets of the European Central Bank.