



The Political Economy of European Integration

Problem Set

(This problem set is due on Monday, July 18th 2016 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

- (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 4

- (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 5

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 6

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.

Problem 7

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 8

Describe the different ways in which the government may intervene in the foreign exchange market. Can EU governments behave like that?

Problem 9

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

Problem 10

Discuss the salient features of the current debt crisis that affects a sample of EU countries adopting the EURO as a currency.