

The Economics of European Integration

Syllabus, fall 2006

Course code:

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Additional lecturers: Occasionally appearance of guest lecturers from Stockholm School of Economics.

Course Overview and Objective: This is an introductory course in the economics of the European Union, focusing specifically on the economic and also legal aspects of the European Union (EU) internally and in its relation with partners. Given the short time frame of the course, an in-depth analysis of every topic relating to the EU is neither feasible nor desirable. The course will cover the main theoretical issues related to, custom unions, common markets, single currency areas, integration and competition. It will concentrate on key economic issues of interest to economic agents and policy makers in the EU, such as the historical development of the EU; regional cohesion, and competition policies; labor mobility and migration; the Common Agricultural Policy (CAP); and monetary unification and the impact of the single currency. The course will combine mathematical and a non-mathematical treatment of economic theory with policy analysis and illustrative case studies.

Learning Outcomes: Upon completion of the course, you should:

1. be familiar with economic and political developments informing the process of economic integration in the European Union;
2. be familiar with the key features of the Single European Act and the basic theory of custom unions;
3. be familiar with the main problems in economic integration and with the main policies adopted by the EU;
4. understand theoretical and applied issues of the process of Economic and Monetary Union in the EU;
5. understand the rule and distinctive features of labor in the EU;
6. understand the role of agriculture in regional policy, and evolution of the CAP;
7. understand the consequences of EU policy for the rest of the world.

Course Organization: The course will consist of a combination of lectures, term paper, and a two-hour unseen examination. **Term paper:** Each student has to write a term paper (due prel. Nov. 9th). Papers can be written alone or in groups of two students. Term papers should be original essays based on relevant literature. Essays with copy-pasted sentences from other sources will not be accepted! All references must be listed at the end of the document AND cited in the text. The length of the paper is approximately 20 pages (10-15 if writing it alone), font size 12, line spacing 1.5. Students may choose a topic of their own, but some suggestions are:

1. Monetary policy exercised by the European Central Bank.
2. Do we need fiscal federalism in the EU?
3. Should Sweden join EMU?
4. Should the Great Britain join EMU?
5. Pressures for tax harmonization in the EU.
6. Employment effects of the EU enlargement.
7. The budgetary implications of Eastern enlargement.
8. EU-China trade relations.

The exam: will test your knowledge and understanding of the material covered in the course and your ability to analyze theoretical issues related to economic and monetary integration and empirical issues relating to EU policies. The exact date of the written exam will be posted in class.

Recommended core text:

The recommended core text is: **Baldwin, R. and Wyplosz, C.,** *The Economics of European Integration*. 2ed. McGraw Hill 2004 (ISBN 0-077-111192). The lectures draw heavily on this. There are also a number of suitable texts; see additional reading and complementary materials.

Course Outline

(By week, three hours at a time)

1. Introduction to course and the history of EU (R. Baldwin & C. Wyplosz, ch 1).

The first chapter starts by presenting the main events in European economic integration in a chronological order.

2. Basic principles of EU and institutions (R. Baldwin & C. Wyplosz, ch 2-3).

The second chapter describes how EU institutions work and how they make their decisions. Chapter three presents a framework for thinking about EU decision making at a more abstract and more analytical level.

Additional reading:

El-Agraa, A.M (2004), *Economics of the European Union*. Pearson.

Pinder, J (2001), *The European Union: A Short Introduction*, Oxford University Press.

3. The basic components of customs unions (R. Baldwin & C. Wyplosz, ch 4-5).

Chapter four introduces the tools used in chapter five to study the essential economics of preferential trade liberalization. The key simplification in chapter four and five are 'perfect competition' and 'constant returns to scale'.

Additional reading:

Baldwin, R (1994), *Towards an integrated Europe*, CEPR.

Dyker, D., (ed) (1999), *The European Economy*. Longmans.

El-Agraa, A.M (2004), *Economics of the European Union*. Pearson.

4. The internal market project: Domestic policies and trade. (R. Baldwin and C. Wyplosz, ch 5-6).

Chapter six looks at additional effects that arise once one allows for a realistic framework in which imperfect competition and scale economies are important; the main focus is on

how integrating Europe's many small markets can lead to lower price and more efficient firms.

Additional reading:

Dyker, D., (ed) (1999), *The European Economy*. Longmans.

El-Agraa, A.M (2004), *Economics of the European Union*. Pearson.

5. Monetary union 1: Theory of European monetary integration. (R. Baldwin and C. Wyplosz, ch 10-14).

This part begins with an overview of the role and uses of money in Europe (and the world) up to the creation of the monetary union. This is followed by a presentation of the optimum currency area theory. Finally, we discuss the monetary union, its principles and institutions including also a review of the first few years of the euro.

Additional reading:

De Grauwe, P (2005), *The Economics of Monetary Integration, 6th ed.*, Oxford University Press.

Dyker, D., (ed) (1999), *The European Economy*. Longmans.

6. Monetary union 2: Economics of the post-Maastricht EMU and the stability pact. (R. Baldwin and C. Wyplosz, ch 15-16).

Chapter 15 reviews how fiscal policy operates across national boundaries and presents the principles that can help to decide whether some limits in national decisions are in order. This lays the ground for understanding the Stability and Growth Pact. Chapter 16 examines the pact's impact on policy choices and the controversies that have arisen in the early years of its implementation.

Additional reading:

De Grauwe, P (2005), *The Economics of Monetary Integration, 6th ed.*, Oxford University Press.

7. The enlarged EU: post 2004. (R. Baldwin and C. Wyplosz, ch 8).

Chapter eight presents the essential elements, economics, and future challenges of the Common Agricultural Policies.

Additional reading:

Sapir, A., *et al.* (2003), *An Agenda for a Growing Europe: Making The EU System Deliver*. Oxford University Press.

8. EU competition: trade and industrial policy. (R. Baldwin and C. Wyplosz, ch 6.6).

Chapter six (section) discusses competition policy and anti-competitive behavior.

Additional reading:

Buigues, P., Jacquemin, A., and Sapir, A (eds) (1995), *The Coherence of European Policies on Trade Industry and Competition*. Edward Elgar.

9. Fiscal federalism and EU expenditures. (R. Baldwin and C. Wyplosz, ch 3.2-3-4 and 17.3).

Chapter three (sections) discuss the fiscal federalism and task allocation among government levels, economical view of decision making, and the distribution of power

among EU members. Chapter 17 (section) discusses conflicting economic and social goals in relation to the integration impact.

Additional reading:

Sapir, A., *et al.* (2003), *An Agenda for a Growing Europe: Making The EU System Deliver*. Oxford University Press.

10. Regional problems and policy in the enlarged EU. (R. Baldwin and C. Wyplosz, ch 9).

Chapter nine looks at the facts, theory and policy connecting European integration to the location of economic activity in Europe.

Additional reading:

Dyker, D., (ed) (1999), *The European Economy*. Longmans.

Krugman, P (1991), *Geography and Trade*. MIT.

Ottaviano and Puga (1998), "Agglomeration in the global economy: a survey of the new economic geography", *World Economy*, 21.

Complimentary materials

Books:

Krugman, P (1993), "Regionalism vs Multilateralism", in De Melo, J and A, Panagariya (eds), *New Dimensions in Regional Integration*. Cambridge University Press.

McDonald, F and Dearden, S (2005), *European Economic Integration, 4th ed.* Prentice Hall.

Molle, W (2006), *The Economics of European Integration: Theory, Practice, Policy*. Ashgate.

A lot of documentation is available on the web. The key starting point is the official site: <http://www.europa.eu.it> The web site of French Finance Ministry, where many excellent papers in English and French are placed: <http://www.finances.gouv.fr>

See also:

<http://www.ecb.int>

<http://www.bankofengland.co.uk> (and other central banks).

<http://www.wws.princeton.edu/~pkrugman/>

<http://www.nber.org/~wbuiter/public.htm>

Full list of literature

Baldwin, R (1994), *Towards an integrated Europe*, CEPR.

Baldwin, R. and Wyplosz, C (2006), *The Economics of European Integration*. 2ed. McGraw Hill.

Buigues, P., Jacquemin, A., and Sapir, A (eds) (1995), *The Coherence of European Policies on Trade Industry and Competition*. Edward Elgar.

De Grauwe, P (2005), *The Economics of Monetary Integration, 6th ed.*, Oxford University Press.

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