THE ECONOMICS OF THE EUROPEAN UNION
Braker 223, Tuesday/Thursday 1:30 — 2:45pm (H+).

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September 15, 2005
Office hours: Mondays 2:30–4:30, Wednesdays 2:30–4:30pm.
Other times by appointment. You may also contact me by email in order to communicate with me or set up an appointment as well.

1 Course Description

The course will use economic models to examine the development and functioning of the European Union. Particular topics are: European economic integration, customs union and the single market; free movement of labor and capital; monetary unification; the European Central Bank versus the US Federal Reserve System; monetary versus fiscal policy; regional policy; social policy. It will examine external trade policies and economic benefits and costs of joining the union for small versus large countries, and the euro as an international currency. The course will also discuss the impact of the European Union on the developing world and on international income disparities, and its role relative to other regional trading blocks in the world economy.

Specifically, the European Economic Community has grown from a common market of six countries in 1958 to the current twenty five-member European Union. The Ten newest members from Central, Eastern and Southern Europe joined in May 2004. Twelve countries now share a common currency, the euro, which has replaced several national currencies. Individuals and firms now move freely within the European Union. Numerous barriers to trade within the European Union have disappeared. EU-wide institutions are entrusted with decisions about investments in human and physical infrastructure and technological development. They are overseen by a Europe-wide elected parliament.

How has increasing European economic integration affected the structure of individual European economies? Has it affected the rest of the world? How has adoption of a common currency affected the European economies and the world economy? What does the European Union do and what are its prospects for the future, politically and economically? The European Union looks very much like the United States, but is it? Some formerly poor countries have grown rich since they entered the European Union. Will the European Union strengthen further its wealthy members and increase disparities, or is it now having an
equalizing effect? How will the European Union resolve its current political difficulties, after the failed ratification of the Constitutional Treaty by some countries and the suspension of the ratification process by others?

The macroeconomic aspects of European economic integration are also interesting. The European Central Bank is entrusted with policies that affect price stability and employment, but at the same time, the governments of the member nations still exercise sovereignty in ways (including fiscal policy) that also have bearing on macroeconomic conditions and economic development and have not been experienced before in the world economic stage. Britain, Denmark and Sweden are members of the European Union but have not adopted the common currency. Several of the latest entrants are economically much less developed than older members. What is the likely impact of this enlargement? This course will provide some essential tools from international trade and will use models from macroeconomics and international economics to better understand such issues. It will study specific aspects of trade, regional and macroeconomic policy and institutions.

1.1 Requirements

The course grade will be based on students' performance in a midterm, a final, a research paper, occasional homework assignments, and the work on the poster sessions. Class presentations of reading assignments will be done on a voluntary basis but they clearly influence my impression of you.

Please note the following dates: Tuesday, October 11, Columbus Day observance for this class (a "Monday" in the schedule), no class; Thursday, December 8, last class.

1.1.1 Exams

- Tuesday, September 27: group poster session, along with personal written assignment to accompany the presentation, to count for 10% of the course grade. This date is determined so as to give you feedback by the course drop date on October 4, 2005. More details on this requirement are given further below.
- Tuesday, October 25: midterm, to count for 20%;
- Wednesday, December 14, 3:30–5:30pm, final exam, to count for 30% of the grade. The final exam will be held as scheduled by the University and will not be moved.

1.1.2 The research paper

This is the second major requirement for the course and will count for 30% of the grade.

- paper proposal: due on Tuesday, October 18;
- draft of the paper: due on Thursday, November 10;
- the final version: due on Thursday, December 8, at the latest.
These deadlines will strictly be adhered to. They are designed to spread the work over the entire term and to allow you to be ready for brief class presentations at the end of the term. The grade for the paper will be made up of 5% from the proposal, 5% from the draft and the remainder from the final version. This scale puts a lot of emphasis on the quality of the research effort that you make early on in the term.

I am typically very flexible about paper topics, and the paper proposal requirement is designed to help you focus your search for a topic in a timely fashion and to do adequate research to ensure that it may be done within the confines of the term. However, with this said, you should note that you could combine your research with your class presentation of your group project.

1.1.3 Group poster session and class presentations

In order to help focus on some key issues through the bewildering maze of materials and fast-evolving facts on the European Union, a list of topics have been chosen and will be used as follows. The class will be divided into groups in rough proportion to the volume of anticipated work. The groups will be responsible for two types of activities.

- First, a group poster session, scheduled for September 29 during class time, will involve posters on the basic topics to be finalized. All members of the class will grade the posters. To ensure full participation I will also want to get from each of you a statement as to your exact role in the team that is responsible for the respective poster. This could accompany a basic fact sheet that the group will produce for the poster session.

- Second, students will make class presentations on assigned topics or lead the class discussion on assigned readings. The presentations will help provide the class with important institutional and factual material as understood by another student.

Your participation in this activity is compulsory. You may choose which activity to join, but I reserve the right to make sure that the assignment of work is fair. I anticipate a commitment of effort roughly proportional to the number of students indicated below.

1. The Enlargement of 2004 [10 students]
2. Denmark, Sweden and the United Kingdom: Why Yes to the EU but No to the Euro? [3 students]
3. Cohesion and regional issues [3 students]
4. Prospects for candidate countries [5 students]
5. The cases of Norway and Switzerland [3 students]
6. The European Union and the United States [2 students]
These topics are chosen from the viewpoint of providing full coverage. But they are tentative, and we will discuss possibly different topics in class. It is quite alright — a good idea, in fact — if you were to choose a topic for your paper that is closely related to one of the above topics, but you do not have to. For this reason, the assignment of poster presentations will be made by Thursday, September 15, so that you have a better idea of what you want to do your research on.

Group presentations other than as part of the group poster session will contribute 5% of the course grade.

1.2 Writing

Writing is important in this class. We are fortunate to have two writing fellows assisting me. They are:

Austin Blair, austin.blair@tufts.edu and Jessica Anderson, jessica.L.anderson@tufts.edu

They will be working with everyone in the class to help you with the assignments. They will be visiting the class soon to introduce themselves and to explain how they will be helping you with the major writing assignments for the course — a writing assignment associated with the poster session and a term paper. I will follow up with a special document on writing, as well.

- Your first writing assignment, which will describe in proper English narrative your contribution to the poster session, will be due in draft form — two copies — on the day of the poster sessions: September 27, in class. You should plan to meet with one of the writing fellows and leave yourself sufficient time to work on the final draft.

Please sign up for a meeting with the writing fellows. Their schedules will be presented in class on Sept. 20th.

The final versions of the writing assignment will be due on October 3, by 10:00am, outside my office, Braker Hall 117. Grades will be posted by the morning of October 4th.

- Your second writing assignment will be the proposal for the research paper. The proposal itself is due Tuesday, October 18th in class. Please supply two copies. However, there will be a special session with a research librarian, Oct. 13, which will help you learn more about accessing resources through the library system. Please plan to meet with a writing fellow and leave yourself enough time to turn in the final version of the proposal by October 18th.

The proposal will consist of two parts: one, a narrative explanation of the topic and why it is interesting and relevant along with a discussion of the sources that you have used and also plan to use. The second part will contain references to sources.

- Your third writing assignment will the research paper. A draft is due on Thursday, November 10th. I will correct the draft from the point of view of content but not as a text. You will receive feedback from the writing fellows on the text aspect, and you will have plenty of time to work on the text before it is due in final form on Thursday, December 8th, at the latest.
1.3 Books and other resources

A new and excellent textbook

- Baldwin, Richard, and Charles Wyplosz,
  The Economics of European Integration,

has been ordered and is available for your purchase at the Tufts Bookstore. The book will also be on reserve in Tisch. Reading assignments below, e.g. in the form of “Chapter 10,” refer to Baldwin and Wyplosz, unless otherwise indicated. A number of articles will also be used, but they are available on the web, as will be indicated below.

The textbook also contains extensive documentation of web-based resources that will help you in broadening your reading, preparing for class presentations and conducting your research.

A web site has been set up for this class at: http://blackboard.tufts.edu. It will be used for announcements, placement of class materials of various kinds, including details on assignments and external links for web resources. There is already a lot of material in external links, and I urge you to check it out. We will draw from this material in order to acquire background for the various topics we take up during the term. It is especially useful for the group poster session and class presentations. Just go there, select the course and follow the instructions about how to login. If you are not yet registered for the class, you may enter as “guest” and then let me know, giving me your email address, so that I may register you on the site.

2 Class Schedule and Reading List

2.1 Introduction: History and Institutions

From the customs union of the European Economic Community — from the Six to the Nine to the Ten to the Twelve — to Economic and Monetary Union in Europe. Spending and Revenue, and European Institutions.

- Chapter 1, 2.

2.2 Decision Making

Subsidiarity, fiscal federalism

- Chapter 3


2.3 Essential microeconomic tools for open economies

The facts of international trade: Tariffs and other forms of protection, costs and benefits. Industry protection.

- Chapter 4
- See material on World Trade Organization site: www.wto.org

2.4 Preferential liberalization, market size and scale effects

Trading blocks, customs union versus free trade agreements. Impact on those outside. Larger markets, economic efficiency and competitiveness.

- Chapter 5, 6

2.5 Growth and factor market integration

From the removal of trade barriers and creation of the Single Market to complete freedom for EU citizens to relocate within the EU. Does free movement of capital and labor across the European Union accelerate growth? Impact on individuals states versus on the entire EU.

- Chapter 7

2.6 Location of Industry, Economic Geography and Regional Policy

Economic integration causes relocation of industry and new economic agglomerations and change the spatial distribution of economic activity. Can regional policy affect these processes? European Union Cohesion and the European Union “periphery.”

- Chapter 9
• Successes and failures: regions will be selected and respective papers discussed from the *European Investment Bank Cahiers/Papers*, (2000) Vol. 5, No. 1 and No. 2. Available online. See External Links in Blackboard.


2.7 Monetary Integration: Monetary History and the European Monetary System

From the Gold Standard and the Bretton Woods system to the European Monetary System to the common currency.

• Chapter 10, 12

2.8 International macroeconomics and exchange rate regimes

Fixed versus variable exchange rates: benefits and costs to individuals and entire economy. Effects on trade and on exercise of macroeconomic policy.

• Chapter 11


2.9 International macroeconomics and European Monetary Union

When does it make sense for a group of countries to adopt a single currency? How will the common currency affect macroeconomic performance? How is the European Monetary Union functioning?

• Chapter 13, 14

• Why say no to the Euro? Denmark, Sweden and the United Kingdom.
2.10 Monetary versus Fiscal Policy and the Stability and Growth Pact

How does the common currency affect macroeconomic policy?

- Chapter 15


2.11 Financial markets, the euro and the rest of the world

What are the implications of the EMU for the world economy? For the US? Will the Euro emerge as an international currency? What are the benefits and costs?

- Chapter 16


This book contains several interesting readings, in addition to the one by Rey et al., above, and appears to be downloadable — click chapter by chapter — from: http://bookstore.iie.com/merchant.mvc?Screen=PROD&Product_Code=3748

- See Institute of International Economics site for additional material: http://www.iie.com/

2.12 Current issues and Prospects

2.12.1 The Enlargement of 2004

How will the accession of Cyprus, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, the Czech Republic, Slovakia, and Slovenia change the European Union?


2.12.2 Why say no?

Norway and Switzerland.

2.12.3 Accession of new members

2.12.4 Future Prospects

- Lessons from success stories:
  

  Or, may be it is just good economic policy? See, in particular:

- Political aspects of EU-US interaction:

