

ECONOMICS 453
THE UNIVERSITY OF MICHIGAN
THE EUROPEAN ECONOMY
Fall 2005

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Lectures are given Mondays and Wednesdays, 10:10 a.m. - 11:30 a.m., in 1360 East Hall. Many meetings are conducted in discussion format. Bring Parts 1 and 2 of the coursepack to class regularly and be prepared to participate. A seating chart will be distributed on the third day of class. You will be penalized for not choosing a seat on the chart and for not sitting in that seat when attending class.

Sections are taught by **Estelle Dauchy** (edauchy@umich.edu) and **Justin May** (jbmay@umich.edu). Attendance is required, so be sure to participate in the section for which you have registered. Discussion-sections meet six times during the term. Each meeting is devoted to a specific topic. Dates, topics, and readings are specified below. Bring Part 3 of the coursepack to every section meeting.

Readings are selected to complement, not duplicate, lectures and discussions. When preparing for examinations, you should develop an understanding of all required readings, regardless of how explicitly they were discussed in class. The de Grauwe book is available at local bookstores. All books are available at the University Library Reserve Service (Circulation Desk, Shapiro Library). The coursepacks (Parts 1 and 2 for lecture, Part 3 for section) are available at Dollar Bill Copying, 611 Church St., 665-9200.

Grades are based on one midterm examination (30 percent), one paper (30 percent), and the final examination (40 percent). In borderline cases, oral participation in lecture- and discussion-sections will tip the balance. If you have a disability that needs accommodation, please contact Professor Adams no later than September 30. The midterm will be given in class on **WEDNESDAY, OCTOBER 12**, from 10:05 a.m. sharp until 11:30 a.m. The paper assignment appears below. The paper is due in class on **WEDNESDAY, NOVEMBER 30**. The final examination will be given as scheduled on **MONDAY, DECEMBER 19**, from 1:30 p.m. sharp until 3:30 p.m. If you cannot perform assignments at these times, you should not elect this course. Makeup examinations are given only rarely. Except in the most serious of emergencies: Students who miss an examination without *prior* authorization normally receive 0 points for that assignment; and students who submit the paper late, without *prior* authorization, are penalized. Success on the examinations and on the paper will require, among other skills, the ability to write coherent essays.

Office hours of Professor Adams are Tuesday, 3:30 – 5:00 pm and by appointment.

Credit. If you are majoring or minoring in French, German, Italian, or Spanish, and if you wish to receive partial *concentration* credit in that program (in addition to full credit in Economics), please contact Professor Adams before September 15.

READING LIST

- * optional
- ~ Part 1 of the coursepack
- ^ Part 2 of the coursepack
- & Part 3 of the coursepack (section readings)
- @ downloadable via Mirlyn (be sure to log in)
- # University Library Reserve Service (Circulation Desk, Shapiro Library)

Crafts and Toniolo refers to Nicholas Crafts and Gianni Toniolo, eds., *Economic Growth in Europe since 1945*. # HC240 .E27 1996.

De Grauwe refers to Paul De Grauwe, *Economics of Monetary Union*, 6th ed. (Oxford University Press 2005; ISBN 0199256519). Available at local bookstores. Fifth edition on reserve: HG 930.5 .G6741 2003.

Sapir refers to André Sapir et al., *An Agenda for a Growing Europe: The Sapir Report* (Oxford University Press 2004; ISBN 0199271496). # HC 240 .A34 2004.

Swann refers to Dennis Swann, *The Economics of Europe: from Common Market to European Union*, 9th ed (Penguin 2000; ISBN 0140290397). # HC 241.2 .S98 2000.

I. INTRODUCTION

A. EUROPEAN ECONOMIC PERFORMANCE: RECORD AND EXPLANATIONS

Economic Performance of Selected Countries. ~

Boltho, The European Economy, ch. 1: Growth (by Andrea Boltho). ~

*Crafts and Toniolo, ch. 5: Convergence, Competitiveness and the Exchange Rate (by Andrea Boltho). #

*Crafts and Toniolo, ch. 2: Institutions and Economic Growth: Europe after World War II (by Barry Eichengreen). #

Blanchard, Olivier. "The Economic Future of Europe." *Journal of Economic Perspectives*, Fall 2004, 3-26. ^ @

Crafts and Toniolo, ch. 3: The Varieties of Eurosclerosis: The Rise and Decline of Nations since 1982 (by Mancur Olson). ~

*Gordon, Robert J. "Two Centuries of Economic Growth: Europe Chasing the American Frontier." (2004) @

<http://faculty-web.at.northwestern.edu/economics/gordon/2Cent-CEPR.pdf> .

B. THE EUROPEAN UNION

Swann, pp. 1-48: The Evolution of the European Union. ~

Swann, pp. 49-72: The Union Decision-Making Institutions. ~

Alesina, Alberto, and Roberto Perotti, "The European Union: A Politically Incorrect View." *Journal of Economic Perspectives*, Fall 2004, 27-48. ^ @

Treaty Establishing the EC, Articles 2 and 3. ~

- Treaty Establishing the EC, Articles 94 and 95. ~
*Treaty Establishing the EC, Part Five, Title I, Chapters 1-2. ~

II. PRODUCT MARKETS

A. THE CUSTOMS UNION

- Swann, pp. 99-126: Tariff Barriers and the Customs Union. ~
*Swann, ch. 329-349: Global Trading Relationships.
Kreinin, Mordechai. "Effects of the EEC on Imports of Manufactures." *Economic Journal*, September 1972, 897-920. ^@

B. THE SINGLE MARKET: "EQUIVALENT EFFECT"

- Swann, pp. 127-128 (Introduction to ch. 5). ~
Swann, pp. 148-154: Fiscal Factors. ~
Treaty Establishing the EC, Articles 28 and 30. ~
Commission v Germany. ~
Commission v Denmark. ~

*Swann, pp. 294-316: Industrial Policy.
Swann, pp. 154-161: State Aids. ~
Treaty Establishing the EC, Article 87. ~
*Ninth Survey on State Aid in the European Union
http://europa.eu.int/eur-lex/en/com/cnc/2001/com2001_0403en01.pdf
Renault. ~

C. THE SINGLE MARKET: COMPETITION POLICY

- *Swann, pp. 129-148: Cartels and Concentrations.
Treaty Establishing the EC, Article 82. ~
United Brands v Commission. ~
Treaty Establishing the EC, Article 81. ~
Consten and Grundig v Commission. ~
MAN / SAVIEM. ~
Council Regulation (EEC) No 4064/89. ~
Hoechst / Rhône-Poulenc. ~

D. MEASURING IMPACT

- MPA Pharma v Rhône Poulenc Pharma*. ~
Goldberg, Pinelopi, and Frank Verboven, "Cross-Country Price Dispersion in the Euro Era: A Case Study of the European Car Market." *Economic Policy*, October 2004, 485-521. ^@
*“Convergence of car prices improves within EU while remaining constant in the eurozone.” http://europa.eu.int/comm/competition/car_sector/price_diffs/#reports

III. PRODUCT MARKETS: SPECIAL CASES

A. AGRICULTURE

Swann, pp. 232-250: The Common Agricultural Policy. ~

B. PUBLIC UTILITIES

Treaty Establishing the EC, Articles 86 and 295. ~

*Swann, pp. 169-170: State Monopolies. #

*Swann, pp. 261-264: Air Transport. #

European Commission, "Towards a Competitive and Regulated European Electricity and Gas Market." ~

Green, Richard. "Markets for Electricity in Europe." *Oxford Review of Economic Policy*, Autumn 2001, 329-345. ^@

Directive 2003/54/EC of the European Parliament and of the Council of 26 June 2003 concerning common rules for the internal market in electricity and repealing Directive 96/92/EC. ~

European Commission, *Annual Report on the Implementation of the Gas and Electricity Internal Market*. ~

EDF / London Electricity. ~

*EDF / EnBW. @

European Commission, "Mergers: Commission Prohibits Acquisition of EDF by ENI." ~

IV. CAPITAL

Swann, pp. 171-172: Introduction to chapter 6. ~

A. MONETARY UNION

*Swann, pp. 191-231: Economic and Monetary Union.

De Grauwe, chs. 1-4.

*De Grauwe, chs. 6-8.

*Blanchard, Olivier, and Francesco Giavazzi. "Current Account Deficits in the Euro Area." *Brookings Papers on Economic Activity*, 2:2002, 147-209. @

Swann, pp. 73-98: The Community Budget and Borrowing Powers. ~

*Swann, pp. 265-278: Regional Policy.

Engel, Charles, and John H. Rogers. "European Product Market Integration after the Euro." *Economic Policy*, July 2004, 349-384. ^@

B. OTHER DETERMINANTS OF THE ALLOCATION OF CAPITAL

*Swann, pp. 181-184: A Common Market for Financial Services.

*Swann, pp. 184-190: The Free Movement of Capital.

Treaty Establishing the EC, Articles 43, 49, 56, and 294. ~

*Aliber, Robert. "Financial Markets and the Growth of Europe," in *Barriers to European Growth: A Transatlantic View*, Robert Z. Lawrence and Charles L. Schultze, eds. (1987), 384-420. HC 240 .B2971 1987. #

Berglöf, Erik, and Mike Burkart, "European Takeover Regulation," *Economic Policy*, April 2003, 171-213. ^@

V. LABOR

Swann, pp. 172-181: The Free Movement of Labour, Professionals and Persons. ~
Treaty Establishing the EC, Articles 18 and 39. ~

*Swann, pp. 278-293: Social Policy.

*Alesina, Alberto, and Edward Glaeser. *Fighting Poverty in the US and Europe: A World of Difference*. HC 79 .P6 A525 2004. #

Alesina, Alberto, Edward Glaeser, and Bruce Sacerdote. "Work and Leisure in the U.S. and Europe: Why So Different?" 72 pages (31 of text; Alesina web site).

*Sapir, chs. 5-8.

Siebert, Horst. "Labor Market Rigidities: At the Root of European Unemployment." *Journal of Economic Perspectives*, Summer 1997, 37-54. ^ @

Nickell, Steven. "Unemployment and Labor Market Rigidities: Europe versus North America." *Journal of Economic Perspectives*, Summer 1997, 55-74. ^ @

Saint-Paul, "Why are European Countries Diverging in their Unemployment Experience?" *Journal of Economic Perspectives*, Fall 2004, 49-68. ^ @

Freeman and Schettkat, "Marketization of Household Production and the EU-US Gap in Work." *Economic Policy*, January 2005, 5-50. ^ @

*Gordon, Robert J. "Why Was Europe Left at the Station when America's Productivity Locomotive Left the Station?" (2004).

<http://faculty-web.at.northwestern.edu/economics/gordon/P368-CEPR.pdf> .

SECTION MEETINGS

The De Grauwe book has been ordered by local bookstores; all other section readings are in Part 3 of the coursepack. Bring this coursepack to every section meeting.

SEPTEMBER 16. FIRST SECTION MEETING

Topic Economic Growth since World War II: How Useful Is the Solow Model?
Reading Crafts and Toniolo, ch. 1: Postwar Growth (by Crafts and Toniolo).

SEPTEMBER 30. SECOND SECTION MEETING

Topic Trading with Poor Countries: Whose Bananas?
Reading WTO, EC Regime for the Importation, Sale and Distribution of Bananas.

OCTOBER 21. THIRD SECTION MEETING

Topic Fiscal Competition: Is It Beneficial?
Reading Oates, "An Essay on Fiscal Federalism."

NOVEMBER 18. FOURTH SECTION MEETING

Topic Monetary Union: Should the Stability Pact Be Scrapped?
Reading De Grauwe, ch. 9: Fiscal Policies in Monetary Unions
*Blanchard, Oliver, and Francesco Giavazzi, "Current Account Deficits in
the Euro Area: The End of the Feldstein-Horioka Puzzle?" *Brookings Papers
on Economic Activity*, 2:2002, 147-209. @

DECEMBER 2. FIFTH SECTION MEETING

Topic Migration in the Enlarged Union: Sociopolitical or Economic Motivations?
Reading EC Commission, "The Free Movement of Workers in the Context of
Enlargement"

DECEMBER 9. SIXTH SECTION MEETING

Topic Measuring Performance: Why Do People Work?
Reading Prescott, Edward, and Carey, "Why do Americans Work So Much More
than Europeans?" @
*Alesina, Alberto, and Edward Glaeser. "Work and Leisure in the U.S. and
Europe: Why So Different?"
http://post/economics.harvard.edu/faculty/alesina/papers/work_leisure.pdf

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PAPER ASSIGNMENT
Due in class on Wednesday, November 30, 2005

INSTRUCTIONS

1. Choose a news article (not an “opinion” column such as an editorial) published after May 1, 2005, in *The New York Times*, *The Wall Street Journal*, *Business Week*, *The Economist*, or *The Financial Times* (no exceptions!). The story should relate to the European Union.
2. Summarize in one tight paragraph the *story* contained in the article.
3. Identify the important *issues* posed explicitly and implicitly in the article from the standpoint of European economic integration.
4. Use the tools and knowledge you have acquired in this course to analyze the issues you have identified.

REQUIREMENTS

1. Your paper may not exceed three pages in length, exclusive of the cover page and of pages devoted solely to endnotes, figures, and references.
2. On the cover page, on successive lines, centered, roughly one-third of the way down the page, place: the title of your article, the name of the periodical, the date of publication, your name, your student identification number, “Econ 453, Fall 2005”, the number of your discussion-section number (e.g., Section 2), and the name of your GSI.
3. The paper must be typed and double-spaced; use margins of at least 1 inch and a font size of 12 (points). Use this font size for endnotes as well as for text.
4. Attach a copy of the article (or articles, if the story is told in a series of reports).
5. Staple together all of the pages of your submission (including the copy of the article).
6. Number each page of your paper (except the cover page) using Arabic numerals. Consider the cover page to be page 0.
7. When numbering endnotes, use Arabic numerals.

(Assignment continues on next page.)

SUGGESTIONS

1. Comply scrupulously with the instructions and requirements above. Failure to do so will result in lost points. If you don't understand something, seek clarification from your GSI.
2. Begin immediately your search for a suitable article. Toward this end, you will probably want to read regularly at least one of the periodicals mentioned above.
3. Choose your article carefully. It should be easy to find an article that bears on European economic integration. It will be more challenging (but certainly not difficult) to find an article that permits you to discuss issues and tools of relevance to this class. Remember the point of the exercise: to show me what you have learned in this class.
4. The instructions on examinations will read (in part): "Wherever possible, enrich your answers with examples and references drawn from course discussions and materials. Wherever necessary, define important terms and explain the assumptions underlying your arguments. Points will be awarded for organized and coherent argumentation." These instructions apply with even greater stringency on the paper, for which you have more time and direct access to class materials, than they do on the examinations.
5. You are not required to find and consult sources other than those that appear on the syllabus; but you are certainly not prohibited from conducting research in the library! Nor are you prohibited from consulting multiple articles, in various periodicals, covering the same event.