

# ”The Economics of the European Union”

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## Course Overview

This course will discuss the economics of the European Union. We will analyze the major contemporary (macro-)economic issues, namely: Monetary unification, monetary policy in the Euro area, fiscal policy in a monetary union, financial markets and the Euro, and EU enlargement. Each of the topics will be presented in light of modern economic theories and empirical evidence.

## Course Organization

The course consists of six sessions, 3 hours each.

Class participants will have to write an essay on one of the six topics. The aim of the essay is (i) to write a short and concise summary of a specific topic (2-3 pages) (imagine you have to brief your department head); (ii) to develop analytical tools to analyze an issue, present and discuss results (6-7 pages); (iii) to present the results at the end of each session in front of the class (15 minutes). Participants should choose a topic before the course starts. The essay is due in the fifth session.

The basic textbook for the course will be Baldwin and Wyplosz (2004). Further readings are assigned below. Grading will be based on the class essay (40 percent), the presentation (20 percent), and active participation during the course (40 percent).

## Detailed Overview

### 1 The European Union - History, Institutions, Decision Making

Reading: Baldwin and Wyplosz (2004, Chapters 1-3), Oates (1999), Alesina and Perotti (1997), [http://europa.eu.int/abc/history/index\\_en.htm](http://europa.eu.int/abc/history/index_en.htm),

[http://www.europarl.eu.int/factsheets/default\\_en.htm](http://www.europarl.eu.int/factsheets/default_en.htm), <http://europa.eu.int/eur-lex/en/about/index.html>, <http://euobserver.com>, <http://www.europaworld.org/>

Essay topic: Characterize the process of current monetary decision making in the European Economic and Monetary Union. Compare it to decision making at the Federal Reserve System. Discuss the potential implications of an extension of the EURO-area for voting on monetary policy in the governing council.

## **2 The Road to a Common Currency**

Reading: Baldwin and Wyplosz (2004, Chapters 11-12), Feldstein (1997), Rose and van Wincoop (2001), Berger and Nitsch (2005), Rogoff (1996), de Grauwe (2005, Ch. 1-4)

Essay topic: Before adopting the Euro, the 10 new member states will have to operate for at least two years within ERM-2. What problems can you envision? What alternatives would you suggest?

## **3 The European Monetary Union**

Reading: Baldwin and Wyplosz (2004, Chapters 13-14), European Central Bank (2004, Chapter 3), de Grauwe (2005, Ch. 7 and 8), Hofmann and Remsperger (2005), Munchau (2005)

Essay topic: Which specific problems does monetary policy face in a monetary union? Should monetary policy react to different inflation rates in member countries? Compare the European case with the US.

## **4 Fiscal Policy in a Monetary Union**

Reading: Baldwin and Wyplosz (2004, Chapter 15), Gali and Monacelli (2005), Fatas, von Hagen, Hallett, Strauch, and Sibert (2003), Eichengreen (2003, 2005), von Hagen and Wolff (2004), Alesina and Perotti (1995), Koen and Noord (2005), Uhlig (2003), Wyplosz (2005), de Grauwe (2005, Ch. 9), Barro (1974), Barro (1979),

Essay topic: Why are country specific shocks relevant in a monetary union? Are country specific shocks likely to occur in the EU? Which policy instruments can be used to reduce the cost of these shocks? Can fiscal policy do the job under the current institutional setting?

## **5 Financial Markets and the Euro**

Reading: Baldwin and Wyplosz (2004, Chapter 16), Hartmann, Maddaloni, and Manganelli (2003), Baele, Ferrando, Hördahl, Krylova, and Monnet (2004), Gaspar,

Hartmann, and Sleijpen (2002, chapter 2.1, and comment by Rosengren), Bernoth, von Hagen, and Schuknecht (2003), de Grauwe (2005, Ch. 10)

Essay topic: Do bond markets react to differences in deficits in Euro countries? Give reasons, why they should react and why they should not react. What does the evidence show?

## 6 Enlargement of the EU, Recent Experiences and Future Challenges

Reading: Detken, Gaspar, and Noblet (Eds.) (2005), von Hagen and Traistaru (2005), Wolff (2006), also visit the following web pages: <http://europa.eu.int/comm/enlargement/enlargement.htm>,

Information on Turkey and the EU:

[http://www.zei.de/zei-deutsch/publikation/publ\\_turkey\\_monitor.htm](http://www.zei.de/zei-deutsch/publikation/publ_turkey_monitor.htm),

Essay topic: Should Turkey join the EU? Discuss the economic reasons for and against membership. Does Turkey fulfill the criteria for joining?

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