ECON 369 – MAYMESTER 2019 - ECONOMICS OF EUROPEAN INTEGRATION

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Class location: Europe  
Class Meeting: Mon, May 13 – Fri, June 14

GRADE: Written Exam (40%), Term Paper (40%), Homework (20%)

READING ASSIGNMENT: Selected articles based on current developments (see list below)

OBJECTIVE: This course examines both microeconomic and macroeconomic policy issues pertaining to European integration. From a micro perspective, we look at trade liberalization and labor market integration, with particular focus on policy issues like the politics of agricultural price support and regional subsidies. From a macro perspective, we focus instead on the interaction of multiple fiscal policies with only one monetary policy. The emphasis here is on the challenges of policy coordination among independent political entities, starting from the aftermath of German unification (and the ramifications it had in a fixed exchange rate system) to the recent national debt crisis that followed the great recession.

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DISABILITIES: Students requesting academic accommodations based on a disability are required to register with Disability Services and Programs (DSP) each semester. A letter of verification for approved accommodations can be obtained from DSP when adequate documentation is filed. Please be sure that this letter is delivered to me as early in the semester as possible.

ACADEMIC INTEGRITY: The University takes academic integrity quite seriously. All violations of academic integrity will be reported to Student Judicial Affairs and Community Standards in accordance with university policy.
The course’s structure follows the chapters in Baldwin and Wyplosz “The Economics of European Integration.” Students are assigned a European country, and each weekly homework involves applying the lessons learned from the weekly topic to the selected country. This also consists in gathering data using Eurostat’s database and preparing graphs and tables to present their findings. The weekly assignments are then assembled in a final country report paper to be briefly presented at the end of the course. There is also a written test focusing on both the microeconomic aspects and on the macroeconomic issues discussed throughout the course.

TOPICS COVERED:

HISTORICAL BACKGROUND

The first week of lectures focuses on the historical background essential to understand the political motivations behind the economic integration process in Europe. Since WWII the world entered a period of increasing international trade, turning into full globalization in these last quarter century after the end of the Cold War. In this respect, Europe played a groundbreaking role as the seeds of economic integration and policy coordination were first planted in the 1950’s with the European Coal and Steel Community. Before jumping into an economic analysis of recent policy challenges, the course will first focus on what lead European countries to integrate. This will not only be useful to learn a bit of European contemporary history, but it will also serve as a framework to understand the dynamics in other regions of the world experiencing economic growth. (Brief History of the European Union)

LAW, INSTITUTIONS, AND BUDGET

In addition to the historical background, prior to tackling economic issues, it is just as important to understand the overlapping institutions as well as the differences between Europe and the United States, which may be comparable in economic size. European Union (EU) is different from European Monetary Union (EMU), as some countries are part of both (i.e. France) and some are not (i.e. Denmark). Some countries are part of NATO and not the EU (i.e. Norway), and some are part of the EU and not NATO (i.e. Sweden). Aside from definitions and trivia, it is crucial to recognize the implications of some decisive treaties. For instance, the Maastricht Treaty determined inflation, debt and deficit boundaries for countries converging into the Euro, or the Lisbon Treaty laid down the constitutional basis for political integration. In some ways, Europe appears more centralized than the United States, since in the latter individual states have authority on numerous issues, while the former is moving toward excessive homologation. In other ways, Europe has cultural and bureaucratic boundaries that impede a full integration of labor and financial markets, and because of this, it lags behind the U.S. in reaping the benefits of integration.

ESSENTIAL MICROECONOMIC TOOLS

An introduction to the fundamental methods of trade policy analysis is presented. This week introduces basic supply and demand analysis in an open economy and the key economic welfare concepts of consumer and producer surplus, and then uses them to study the simple economics of tariff protection. This analytical concept should be familiar to students who took Principles of Microeconomics (Econ 203), but we will review it with some practical examples pertaining to
Europe.

PREFERENTIAL LIBERALIZATION

An in-depth analysis of European preferential trade liberalization is given. The focus is on how the formation of customs union or free trade area affects people, companies and governments inside and outside the integrating nations.

ECONOMIES OF SCALE AND GROWTH

Market-expanding aspects of European integration will affect the efficiency of European firms. The main line of reasoning explains how integration in the presence of scale economies can produce fewer, bigger and more efficient firms facing more effective competition from each other. The ongoing enlargement of the European Union makes this sort of logic more relevant, although actual experience may underscore discrepancies across countries due to institutional rigidities. The emphasis is on comparing theory and evidence of European integration medium and long-run growth effects. Neoclassical and endogenous growth theories are covered to understand the growth-integration linkages.

LABOR MARKET AND MIGRATION

We review the basics of labor economics in order to explain unemployment and how structural norms have negative effects in terms of jobs, wages and growth. Based on this analytical framework, the effects of integration are considered, with special emphasis on the integration of Central and Eastern European countries, which were also transitioning into a market economy.

THE COMMON AGRICULTURAL POLICY

The Common Agricultural Policy (CAP) is examined as an example of microeconomic policy. In many respects European agricultural policy resembles protectionism rather than free trade, and this practice is not much dissimilar to the agricultural policy in other regions of the world. The textbook takes particular care to examine the economic forces behind recent CAP reforms in light of international trade negotiations (the Doha Round), the Eastern enlargement and the reforms that are being discusses for the post-2013 financial period. This is a practical example of how economic theory comes to face the political reality.

REGIONAL POLICY AND REDISTRIBUTION

A third of the European Union’s budget (which is about 1% of the overall GDP) is dedicated to funding less developed regions. Europe presents a much wider income discrepancy than American states, and this redistribution is often justified to offset the supposed growth differentials due to integration. In order to understand if this EU regional policy is warranted, we presents the location effects of integration in light of neoclassical theories (Heckscher-Ohlin), as well as the so called economic geography. EU's regional policy, may be another case of politics over economics, especially when considering the implications that the EU’s Eastern enlargement brought to redistribution. EU subsidies are not limited to regional transfers, but these anti-competitive
practices extend to other realms. This section will discuss several recent cases and their overall impact.

TRADE POLICY

EU trade policy is its commercial relations with the rest of the world. While trade policy is not as central to the EU as the Common Agricultural Policy or regional policies, it is important. The EU is the world largest trader, and trade policy is the only EU "foreign policy" that is consistently effective. This section covers EU trade policy by presenting the basic facts on EU trade, covering the EU's institutional arrangements that concern trade policy, and finally summarizing the EU's policies towards its various trade partners.

ESSENTIAL MACROECONOMIC TOOLS

This section revisits the macroeconomic theory needed to analyze monetary integration. It is organized around the Mundell-Fleming model and establishes the principles: interest rate parity, purchasing power parity and the impossible trinity that affects the choice of exchange rate regimes.

MONETARY INTEGRATION

Europe has essentially been in a monetary union before the Euro, since a system of fixed exchange rates was already in place under the gold standard. This section looks at the optimum currency area theory as the framework needed to think about the working of a monetary union. The basis is provided by the principles developed in the previous section, and looking at the costs and benefits resulting from sharing a common currency, the theory is essential to understanding what works and does not work in the Eurozone.

EUROPEAN MONETARY UNION (EMU)

What are the main features of the European monetary union? The institutions created by the Maastricht Treaty have evolved since, including during the crisis that started at the end of 2009. Here we explain the importance attached to price stability and the measures adopted to achieve this objective. Here we review the first decade of the euro up until the crisis, and how fiscal policy is the last national macroeconomic instrument remaining once national monetary policy had been lost.

FISCAL POLICY AND STABILITY PACT

The Stability and Growth Pact is designed to deliver just enough budgetary discipline so as not to endanger the overriding price stability objective. There are some shortcomings to this Pact, and the crisis has led to a strengthening it, although fundamental economic and political difficulties remain.

FINANCIAL MARKETS AND THE EURO

This section analyzes the financial markets, how the financial services industry was transformed
by the Single European act 1986 and by the adoption of a single currency, and how it has been fragmented by the crisis. The measures taken to deal with this unexpected development are presented and evaluated, including the creation of the Banking Union.

EUROZONE IN CRISIS

Finally, we take a look the Eurozone crisis, and how the global crisis that started in the U.S. was transmitted to Europe. The next step, the sovereign crisis, is then described and analyzed, bringing together much of the material presented before. The policy responses are presented and critically evaluated.

READING ASSIGNMENTS:

Although there are textbooks available in Economics of European Integration, this course will not require a textbook. A non-mandatory textbook that the instructor may use as an outline for the course is:


Articles and eBooks on current-events analysis will comprise the backbone of weekly reading material. For example, this is a selected list of free eBooks published by voxeu.org (each link contains multiple article on the topic at hand):

Quo Vadis? Identity, policy and the future of the European Union
What To Do With the UK? EU Perspectives on Brexit
How to fix Europe’s monetary union: Views of leading economists
A New Start for the Eurozone: Dealing with Debt
No Country for Young People? Youth Labour Market Problems in Europe
Refugees and Economic Migrants: Facts, policies and challenges