

EC4027, The European Economy, Autumn Semester, 2010

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Introduction. The years since 1945 have been the longest period since 113 B.C. in which no army has crossed the Rhine with war-like intentions. The very idea of war between the European Union's member States seems so remote as to be nonsensical. The creation of the European Union (EU); a legal, political, economic, cultural, and soon to be military entity, is one of the greatest economic experiments in the history of Mankind. The shape and scope of the EU has the capacity to affect the lives of hundreds of millions of people in different ways, some positive, some negative. Thus a careful study of this experiment is in order.

This module uses economics to understand the history of the EU, its significance in terms of the post 1945 World Economy, its development up to today, and the prospects for change most likely in the future. We have 22 contact hours. Each 2 hour block will be *thematic*, that is to say, this is *not* a survey course in International Economics or naive Trade theory. We will use real world examples, data, and current topics to inform our discussions. Lectures will be dialogues rather than strictly didactic in format. Student participation in lectures is expected.

Learning Outcomes. By the end of this course, students should be

- conversant with the historical literature on the development of the EU;
- knowledgeable about EU social and environmental policy and their impact on the Irish economy.
- able to demonstrate a synthesis of the important issues of the day pertaining to the EU from an economic context.

Grading. To get a grade for this class students will have to submit three short, 5 page essays worth 25% each, due at the start of weeks 5, 7, and 9, and a data project worth 25% in week 12. There will be no Christmas exam. With respect to the *repeats*, a student would normally carry the course work marks to be incorporated into the overall repeat exam grade. Essay topics, essay writing, and formatting, will be discussed with the TA in tutorials.

Plagiarism will *not* be tolerated. Students should refer to the University's policy on plagiarism in their Student handbooks, and for referencing help, go to www.ul.ie/library/pdf/citeitright.pdf. The essays will be graded according to the schema available on <http://www.stephenkinsella.net/ec4333>. Written feedback will be given on all essays.

Materials. There is no core textbook for the course, but good books available in the library which may be helpful are: Eichengreen, *The European Economy since 1945*, Princeton University Press, 2007, Baldwin and Wyplosz, *Economics of European Integration*, McGraw-Hill 2009, and Susan Senior Nello, *The European Union: Economics, Policies, and History*, McGraw Hill Press, 2008.

Supplementary readings are taken from many textbooks, and all are on reserve in the library and available on the course homepage.

Readings which are not part of textbooks are available online as a coursepack at <http://www.stephenkinsella.net>. Course notes, slides, links to datasets, and a podcast of each lecture will be available from the course site at the end of every week. Attendance at lectures is mandatory. Tutorial rooms will be assigned during the semester, and begin in week 3. We'll use online resources heavily in this module.

Course Outline. The lectures are not designed to fit into 2 hour slots: some will be longer—like the economics of Monetary Union—and some will be shorter. All readings available in the library have their

codes given in sans serif font to speed you in finding them. Readings marked with a * are the essential readings for the next lecture, so if you read only one thing that week, the starred reading should be it.

Lecture One: Introduction to the course, definition of ‘economic integration’, history of the institutions of the European Union to date. History of the EU to date continued, Institutional Analysis of the dynamic of European integration and the stages of economic integration (customs union-common market-economic and monetary union) especially the fifth enlargement and the Treaty of Rome. Structure of the EU. Readings:

- Eichengreen, B. *The European Economy since 1945*, MIT Press, 2007.
- * Beach, D., *The Dynamics of European Integration*, pgs. 1–31, and pgs. 214–244, 337.142 BEA.
- El-Agraa, A.M., *The European Union: Economics and Policies*, 6th ed., pgs 1-19 and 72-79, 337.142 AGR.

Lecture Two: Institutions of Economic and Monetary Union, development of current policies and prospects for the future. Models of Customs Unions for Product and Factor Markets and empirical results on levels of integration across these markets Readings:

- Baldwin & Wyplosz, Chapters 3, 4, and 11.
- * Pelkmans, J. *European Integration: Methods and Economic Analysis* 1st ed., pgs. 83–104 and 133–155. 337.142 PEL.
- El-Agraa, A.M., *The European Union: Economics and Policies*, 6th ed., pgs. 149–164, 337.142 AGR.
- Lane, P. (2006) The Real Effects of EMU, *Journal of Economic Perspectives*, forthcoming. Available in coursepack.

Lecture Three: Fiscal policy in the EU, Economics of preferential liberalization; Economic and Monetary Union. The need for fiscal councils amongst member states. Readings:

- Baldwin & Wyplosz, Chapter 5.
- * Buitter, W.H. “The Economic Case for Monetary Union in the European Union”, in Deisenberg, Owen and Ulph, eds. *European Economic Integration*, published as a supplement to the Review of International Economics, Vols. 4-5., pgs. 10–35. 337.142 DEI.

Lecture Four: The EU and Ireland. Ireland is the poster-child for the benefits of accession to the EU. Other small open economies have not done so well. What does continued membership of the EU mean for Ireland today?

- * Barrett, A., Bergin, A., and Duffy, D. ‘The Labour Market Characteristics and Labour Market Impacts of Immigrants in Ireland’ *The Economic and Social Review*, Vol. 37, No. 1, Spring 2006.
- McAleese, D. ‘Policy Objectives and Competitiveness for a Regional Economy’, in O’Hagan and Newman, eds. *The Economy of Ireland: National and Sectoral Policy Issues*, 9th ed., pgs. 2–28. 330.94178024 OHA

Lecture Five: Market Size and Scale Effects: oligopolies in Europe.

- Baldwin & Wyplosz, Chapter 6.
- Krugman, P. and Helpman, E. *Market Structure and Foreign Trade*, MIT Press, 1985.
- Krugman, P. Nobel Lecture, 2008, available from www.nobel.se.

Lecture Six: Growth and development effects in the EU. The logic of growth effects, medium term effects & long term effects.

- Baldwin & Wyplosz, Chapter 7.
- Badinger, H. Technology and Investment-led growth effects of economic integration. *Applied Economics Letters*, 15(7), 557-61, 2008.
- Jones, C. I. *Introduction to Economic Growth*, McGraw Hill, 2008.

Lecture Seven: Energy in the EU: economics of generation, supply, and demand.

- Checchi, Arianna, Arno Behrens and Christian Egenhofer, Long-term energy security risks for Europe: a sector-specific approach, CEPS Working Paper no. 309, CEPS, Brussels, January 2009.
- Commission of the European Communities, *Europe’s energy position: Present and Future*, Market Observatory for Energy Report 2008, Luxembourg, Office for Official Publications of the European Communities, 2008.

Lecture Eight: Economic Inequality across the EU

- Baldwin & Wyplosz, Chapter 9
- * Michie, J., ‘Unemployment in Europe’, in Amin and Tomaney, eds. *Behind the Myth of European Union: Prospects for Cohesion*, Routledge Press, 1995, pgs. 51–82. 337.14 AML.
- Jensen, S. E. H. “Wage Rigidity, Monetary Integration and Fiscal Stabilisation in Europe”, in Deissenberg, Owen and Ulph, eds. *European Economic Integration*, published as a supplement to the Review of International Economics, Vols. 4-5., pgs. 36-54. 337.142 DEI. (Note, this is a hard paper, but students who know calculus should attempt it.)
- Bertola, G. ‘Europe’s Unemployment Problems’, in Artis and Nixon, eds. *The Economics of the European Union*, 3rd ed., pgs. 353–381.

Lecture Nine: Enlargement: Political Economy of accession to the EU, capital market integration.

- Baldwin & Wyplosz, Chapter 19
- * Estrin, S. and Holmes, P. *Competition and Economic Integration in Europe*, pp. 1–22. 337.142 EST
- Smith, E. ‘EU Competition Policy Without Membership: Lessons for the European Economic Area’, in Estrin, S. and Holmes, P. *Competition and Economic Integration in Europe*, pgs. 48–60. 337.142 EST
- Willem H. Buiter and Anne C. Sibert, ‘Eurozone Entry of New EU Member States from Central Europe: Should They? Could They?’

Lecture Ten: Location Effects, Regional and Industrial Policy. Deeper EU integration may have significant implications for the economic activity of member states. Changing trade relations, increasing competition, and the increased mobility of goods, services and people will all affect the location of industries across the EU. How should member states and the EU react? Can an active industrial policy be justified? What form should regional policy take?

- Baldwin & Wyplosz, Chapter 13.
- * Puga, D., ‘European regional policy in light of recent location theories’, *Journal of Economic Geography* 2(4), October 2002: 372-406
- Puga, D. ‘The rise and fall of regional inequalities’, *European Economic Review* 43(2), February 1999: 303-334.

Lecture Eleven: International Trade, Tariffs, and Globalization. The EU is the largest trading bloc in the world. What are the effects one might expect from a economic entity as large as the EU changing its trade-tariff policies?

- * Stiglitz, J.E., and Greenwald, B. Helping Infant Economies Grow: Foundations of Trade Policies for Developing Countries, *American Economic Review*, Papers and Proceedings, May 2006.
- Shaikh, Anwar, Globalization and the Myth of Free Trade.(2003) Prepared for the Conference on Globalization and the Myths of Free Trade, New School, NYC.