OSNABRUECK UNIVERSITY
DEPARTMENT OF ECONOMICS

Exam

Subject	Economic Policy of the European Union
Examiner	Prof. Frank Westermann, Ph.D.
Date	02.08.2023

Student

(Please fill in legibly in block letters!)

Degree program	
Last name, first name	
Matriculation number	

Points obtained

Please answer all questions

Points				
A1	**A2**	**A3**	**A4**	**A5**

Grading

Total score	
Module grade	
Examiner signature	

The chair of International Economic Policy wishes you good luck!

Do not use pencil, erasable pen, red ink!

In all assignments: Please label graphs and explain notation!

Please also use the reverse side for the solutions!

Question 1: Institutions, budget and decision making in the EU (12 points)

(a) (6 points) Define two concepts of European integration (intergovernmentalism vs federalism) and provide one example of an integration agreement for each of them.

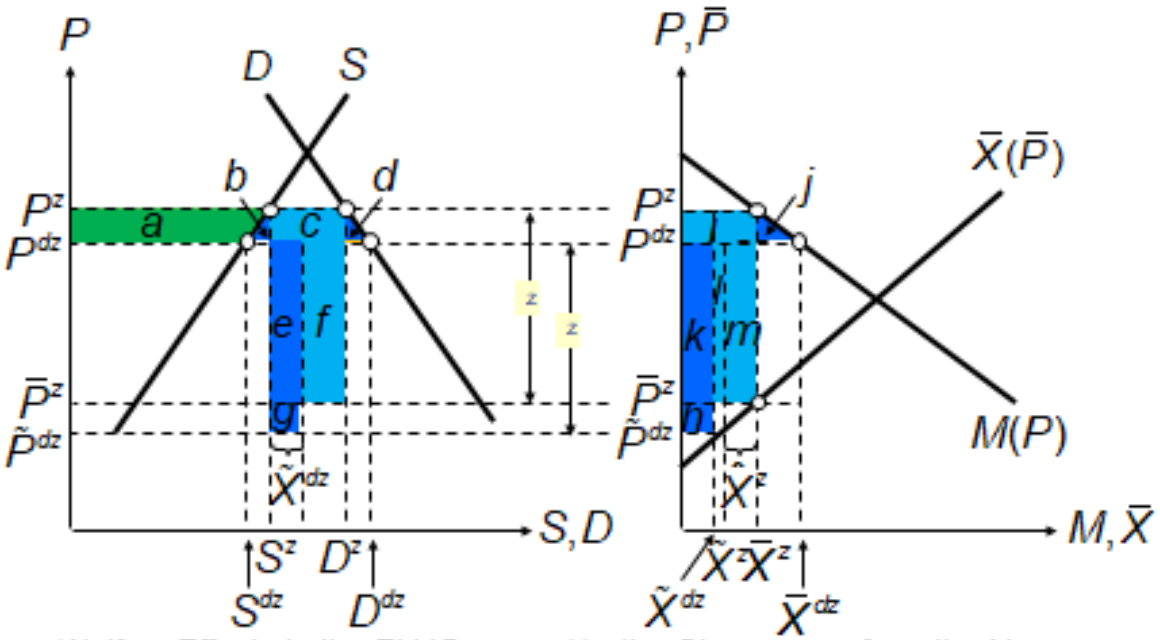
(b) (6 points) Explain how the qualified majority voting procedure from the Lisbon Treaty (currently in force) balances the concepts of equal power per citizen and equal power per state.

Question 2: Trade integration (12 points)

The EU plans a unilateral preferential liberalization with candidate countries. Using the diagram, state and briefly explain the effects for the EU (i.e., Home country: changes in consumer and producer surplus + government revenue). Use the diagram for your answer. Do you expect an overall positive or a negative welfare effect for the EU (Home country)?

Notation:
z – non-discriminatory tariff, dz – preferential tariff.

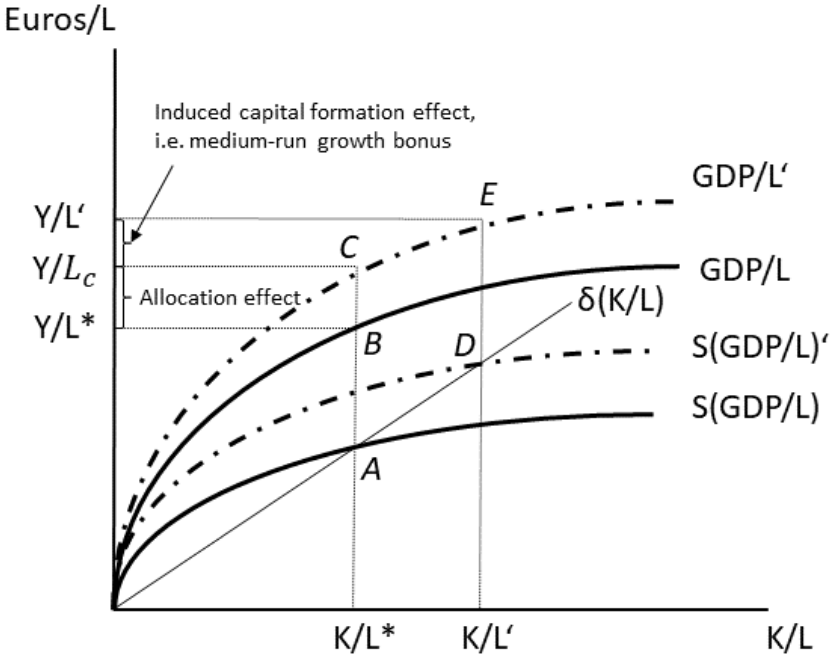
P^z - EU (Home), $\bar{P}^z$ – Partner, $\tilde{P}^{dz}$ – Foreign.



Welfare Effects in the EU15 caused by the Changeover from the Non-Discriminatory Tariff to the Discriminatory Tariff.

Question 3: Capital market integration in the EU (10 points)

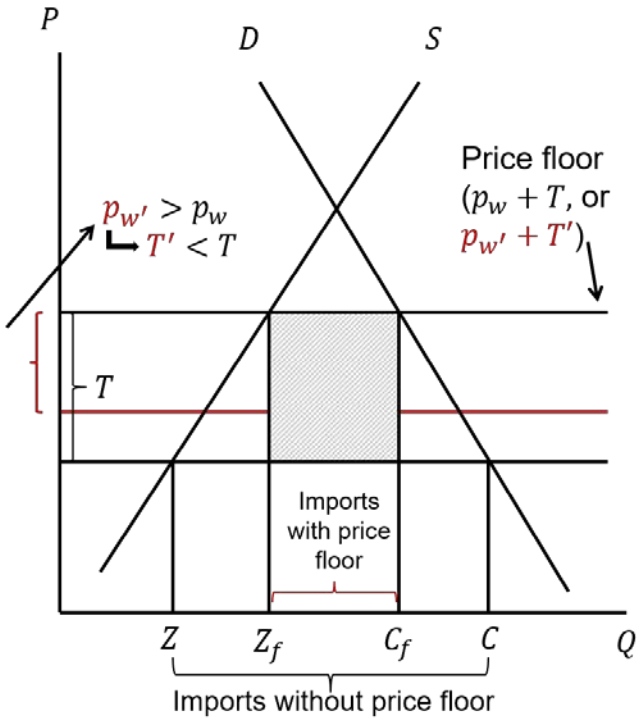
(a) (4 points) Using the Solow model, explain the logic behind the allocation effect of capital market integration.



(b) (6 points) Although free movement of capital within the EU is possible, some of the relatively less developed regions attract fewer investments, contrary to the logic suggested by Solow model in part (a). Explain this phenomenon using the concepts from the New economic geography theory.

Question 4: Common agricultural policy (6 points)

Using the diagram explain the mechanism behind the CAP price floor.



Question 5: European monetary union (20 points)

(a) (8 points) Interpret the table 5 from De Grauwe and Ji (2013) in terms of impact of fundamentals on Eurozone members vs standalone countries pre- and post the Global financial crisis: comment on controls and their effects.

Table 5
Spread in "stand-alone" countries and Eurozone (%).

	Pre-crisis	Post-crisis	Pre-crisis	Post-crisis
Accumulated current account GDP ratio	−0.0004 [0.0049]	−0.0067 [0.0078]	−0.0005 [0.0058]	−0.0071 [0.0081]
Accumulated current account GDP ratio × Eurozone	0.0010 [0.0046]	−0.0740*** [0.0214]	0.0010 [0.0054]	−0.0654*** [0.0172]
Real effective exchange rate	−0.0201* [0.0097]	0.0036 [0.0106]	−0.0194* [0.0099]	0.0031 [0.0109]
Real effective exchange rate × Eurozone	0.0061 [0.0098]	0.1909** [0.0848]	0.0055 [0.0099]	0.2022** [0.0835]
Growth rate	−0.0105 [0.0432]	−0.0077 [0.0154]	−0.0107 [0.0417]	−0.0045 [0.0155]
Change in exchange rate	−0.0558*** [0.0119]	−0.0005 [0.0077]	−0.0559*** [0.0118]	−0.0006 [0.0076]
Debt/GDP ratio	−0.0018 [0.0137]	0.0241*** [0.0070]		
Debt/GDP ratio × Eurozone	0.0053 [0.0143]	0.0904*** [0.0249]		
Fiscal space			0.0050 [0.3594]	0.6575*** [0.1628]
Fiscal space × Eurozone			0.1424 [0.3925]	3.1180*** [0.6592]
Country fixed effect	Controlled	Controlled	Controlled	Controlled
Observations	768	360	768	360
R^2	0.8365	0.8809	0.8365	0.8888

Cluster at country level and robust standard error is shown in brackets. *$p < 0.1$, **$p < 0.05$, ***$p < 0.01$.

(b) (12 points) Using the concepts learned in class, describe the economic mechanisms that explain the differences in effect of fundamentals on standalone and Eurozone countries in table 5 from De Grauwe and Ji (2013).