

# The Economics of European Integration

## Lecturer: Prof. Filippo Reganati

Spring 2021

**Course:** 9 CFU

**Class time:** Monday/Tuesday/ Wednesday 10:00 -12:00

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**Course objective:** The primary goal of this course is to provide students with a basic understanding of the concepts and analysis of economic integration. The course will cover the main theoretical issues related to economic integration (customs union, common market etc.) As a most successful scheme of international economic integration special emphasis is given to the European Union. Although the course will concentrate on main economic aspects of the European integration, a brief overview of historical and political foundations of the European Union will be presented.

The course is divided in two parts. The first part considers the basic economics of trade protection, the stages of economic integration – from Customs Union to Common Market to Economic and Monetary Union. Special focus will be addressed to the formation of customs unions and the costs/benefits of joining trading blocs such as the EU. We also study the Single Market programme - the four freedoms (goods, services, capital and labour), nontariff barriers, factor mobility; the location of industry and the “new economic geography”; the effects of regional integration on FDI.

In the second part some basic principles behind macroeconomic and monetary integration will be studied. In particular, it considers the history of monetary union and the European monetary system. This part will analyze both key theoretical and practical questions of monetary integration. What are the costs of a loss of monetary independence? What is the likely impact of asymmetric shocks? How quickly does the economy adjust? What criteria need to be in place for a single currency area to be successful? The final session will consider the impact of the financial crisis on the eurozone.

**Grading:** A written test in 40 minutes + an oral examination

### Main Textbooks:

- Baldwin, Richard and Charles Wyplosz *The Economics of European Integration*, McGraw Hill, 2015 ch. 1
- De Grauwe, Paul. (2014) *Economics of Monetary Union*, Tenth edition, Oxford University Press.
- T. Hitiris, *European Union Economics*, 5th edition, 2003, Pearson Education

- M.J. Artis and N. Nixon, *The Economics of the European Union*, 4th edition, 2007 Oxford University Press,
- W. Molle, *The Economics of European Integration*, 5th edition, 2006, Ashgate
- Jovanovic, Miroslav N. (2013) *The Economics of European Integration*, Second Edition, Edward Elgar.
- Pelkmans, Jacques (2006) *European Integration: Methods and Economic Analysis*, Third Edition, FT Prentice Hall.

**Useful links:**

<http://www.europa.eu.int>

<http://www.ecb.int>

<http://ec.europa.eu/eurostat/>

<http://www.euoparl.europa.eu/>

<http://www.euobs.com/>

<http://www.voxeu.org/>

[http://www.wws.princeton.edu/~pkrugman/.](http://www.wws.princeton.edu/~pkrugman/)

# Structure of the Course

## **Part one – Economic Integration, trade and the single market**

### **1. Free trade vs. protectionism**

- Free trade
  - Which are the gains from trade ?
- Trade policies
  - Instruments of trade policy
  - Effects of trade policy
  - Arguments for protectionism

#### **Readings**

- Carbaugh, Robert, *International Economics*, Thompson, 2008 ch. 4 and 5

### **2. Multilateralism vs. regionalism**

- The Multilateral trading system
  - From GATT to WTO
- The Regionalism
- Examples of Regional Trade Agreements
  - From the EEC to the EU
  - EFTA,
  - NAFTA,
  - Mercosur,
  - APEC,
  - ASEAN

#### **Readings**

- Baldwin, Richard and Charles Wyplosz *The Economics of European Integration*, McGraw Hill, 2015 ch. 1
- Robert Carbaugh *International Economics*, Thompson, 2008 ch 6
- A.M. El-Agraa, *The European Union: Economics and Policies*, 2011, Cambridge University Press ch. 1

### **3. The Theory of Economic Integration**

- Definition
  - What Is Economic Integration?
  - The Possible Gains from Economic Integration
- Stages of economic integration
- The Theory of Customs Union
  - Static effects
  - Dynamic effects
- The Theory of Common Market

## Readings

- W. Molle, *The Economics of European Integration* 2006, Ashgate ch. 5 and 6
- A.M. El-Agraa, *The European Union: Economics and Policies*, 2011, Cambridge University Press ch 6 and 7

## 4. Economic integration and the New Economic Geography

- Facts on Europe's economic geography
- Theory
  - Comparative advantage
  - New economic geography
- EU Regional Policy

## Readings

- Baldwin, Richard and Charles Wyplosz *The Economics of European Integration* McGraw Hill, 2015 ch. 10

## 5. Foreign direct investment and regional integration

- Foreign Direct Investment and Multinational Enterprises
- The role of multinational firms in the world economy
- The theory of multinational firms
- Regional integration and foreign direct investment

## Readings

- Jepma C, Jager, H. and Kamphuis, Introduction to International Economics, Longman Ch. 5

## Part Two – Monetary Union and economic crisis

### 1. Essential tools of macroeconomics

- Gross Domestic Product, Unemployment and Inflation
- Goods Markets in Closed Economy: Composition of GDP, Demand for Goods (Consumption, Investment, Government Spending), Determination of Equilibrium Output and Multiplier Effect. Investment-Saving Relation.
- Financial Markets in Closed Economy: Demand for Money, Money Supply and the Equilibrium Interest Rate. Monetary Policy and Open Market Operations. The Role of Banks. Monetary Base, Money Supply and Money Multiplier.
- The IS-LM Model in Closed Economy: Goods Markets and the IS relation, Financial Markets and the LM relation. Equilibrium in IS-LM model: Fiscal Policy and Monetary Policy. Liquidity trap.

## Readings

- Olivier Blanchard, *Macroeconomics*, 7th Edition, ©2017 | Pearson.
- Olivier Blanchard, Alessia Amighini, Francesco Giavazzi, *Macroeconomics: A European Perspective*, ©2017 | Pearson.

## 2. Essential tools of international macroeconomics

- Goods Markets in Open Economy: The Choice between Domestic and Foreign goods. Exchange rate. Demand for Domestic Goods and Net Exports. Goods Market Equilibrium and Multiplier Effect. Marshall-Lerner Condition. The *J*-curve. Saving, Investment and the Trade Balance.
- Financial Markets in Open Economy: The Balance of Payments. The Choice between Domestic and Foreign Assets: Uncovered Interest Parity Condition. Financial Market Equilibrium. Purchasing Power Parity Condition.
- The *IS-LM* Model in Open Economy (Mundell-Fleming's Model): Simultaneous Equilibrium in Goods and Financial Markets, Equilibrium of Balance of Payments and the *BP* curve, Macroeconomic Policy with Flexible Exchange Rates, Macroeconomic Policy with Fixed Exchange Rates.

### Readings

- Olivier Blanchard, *Macroeconomics*, 7th Edition, ©2017 | Pearson.
- Olivier Blanchard, Alessia Amighini, Francesco Giavazzi, *Macroeconomics: A European Perspective*, ©2017 | Pearson.
- Jepma C, Jager, H. and Kamphuis, Introduction to International Economics, Longman Ch. 2
- Appleyard D. and Field, A. *International Economics*, Mc Graw Hill Ch. 26 and 27

## 3. The international monetary system

- The gold standard
- The Bretton Woods System
- Post Bretton Woods
- Today exchange rate regimes

### Readings

- Baldwin, Richard and Charles Wyplosz *The Economics of European Integration* McGraw Hill, 2015 ch. 14

## 4. European Monetary Integration

- Why monetary integration?
- The development of monetary integration in the EU
- The theory of optimum currency areas;
  - Is the EU an OCA?

### Readings

- A.M. El-Agraa, *The European Union: Economics and Policies*, 2011, Cambridge University Press ch. 10
- Baldwin, Richard and Charles Wyplosz *The Economics of European Integration* McGraw Hill, 2015 ch. 15

## **5. The ECB: Making monetary policy and financial markets**

- The ECB policy rules and practice;
- financial institutions and financial integration

### **Readings**

- Baldwin, Richard and Charles Wyplosz *The Economics of European Integration* McGraw Hill, 2015 ch. 16

## **6. Fiscal Policy in EMU**

- Public deficit and debt
- The role of fiscal policy in EMU;
- The Stability and Growth Pact and the coordination of macroeconomic policy;

### **Readings**

- Baldwin, Richard and Charles Wyplosz *The Economics of European Integration* McGraw Hill, 2015 ch. 17

## **7. Brexit: what will happen next ?**

### **Readings**

- Lecture notes