

Economics 400: The European Economy (CRN: 23922)

KEY INFORMATION

Professor: Justin May

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Office: 124 Morton Hall

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Meeting Time/Place: TR 11:00-12:20 in Morton 220

Office Hours: TR 3:30-5:00, or by appointment

Required Text: Baldwin and Wyplosz, *The Economics of European Integration*, 2e.

Optional Texts: DeGrauwe, *Economics of Monetary Union*, 6e.

Swann, *The Economics of Europe: From Common Market to European Union*, 9e.

READINGS

Readings will come from the required text referenced above as well as several outside sources. Outside readings are meant to complement rather than duplicate the material in the text and will be covered on the final examination. To aid you in finding them and to ensure that we are all working from the same version of a document, most outside readings will be posted to Blackboard as .pdf files.

USEFUL WEBSITES

EU encyclopedia: <http://eurunion.org/infores/euindex.htm>

EU documents: <http://eur-lex.europa.eu/en/index.htm>

EU competition documents: http://ec.europa.eu/comm/competition/index_en.html

EU court cases: <http://curia.europa.eu/en/content/juris/index.htm>

OECD data: <http://www.sourceoecd.org>

GRADING

Your course grade will be composed of four parts—two sessions as an in-class discussant (in groups of five) worth 15 percent each, a short paper worth 30 percent, and a comprehensive final examination worth 40 percent. Detailed information on discussant duties and the paper assignment can be found at the end of this syllabus. *Letter grades will be assigned on a relative scale, but the scale will never be worse than 90-80-70-60.* That is, any student who earns more than 90 percent of the available points during the semester is guaranteed a grade in the A range. Any student who earns between 80 and 89.9 percent of the available points during the semester is guaranteed at least a grade in the B range, and so on.

Discussant duties for the various topics will be assigned by lottery during the second week of the course. You are encouraged to find a group with whom to work, and at least two members of the group must meet with me at least two days prior to your turn as discussant. The paper assignment will be due in class on April 16. The final exam will take place on May 11 from 2:00-5:00 p.m. *If you cannot perform exams and assignments at these times, you should not elect this course.* I do not give makeup examinations readily, and I only give them with a valid excuse. Valid excuses have documentation. Except in the case of serious emergencies, *students who miss an examination without prior authorization will receive a grade of zero.* Students who submit a paper late will be penalized five percentage points per day. If you have a disability that requires accommodation, please contact me no later than February 15.

EXPECTATIONS

- Come to class having read the relevant material and ready to participate. Class is much more enjoyable if there's a lively discussion, and everyone (including your professor!) benefits from others' insights.
- Keep up. Doing the readings and problem sets as they are assigned lets you check your understanding of the material and makes exam preparation less daunting.
- Contact me if you are having trouble with the material. It is my hope that everyone learns the material, and I am willing to go to great lengths to help those who help themselves.
- Give feedback. The style and content of my teaching is constantly evolving, and I take my duties as an educator very seriously. If there's something you feel would make the class more effective, please feel free to suggest it.
- Maintain academic integrity. *Any suspected violations of the Honor Code will be referred immediately to the Honor Council.*

COURSE OUTLINE

Section 1: Introduction

a. European Economic Performance: Evidence and Explanations

- Economic Performance of Selected Countries
- Andrea Boltho, *The European Economy: Growth and Crisis*, Ch. 1
- Barry Eichengreen, "Institutions and Economic Growth: Europe after World War II"
- Mancur Olson, "The Varieties of Eurosclerosis: The Rise and Decline of Nations since 1982"
- Olivier Blanchard, "The Economic Future of Europe." *Journal of Economic Perspectives*, Fall 2004, 3-26
- N. Gregory Mankiw, *Macroeconomics*, Ch. 7-8

b. The European Union: History and Institutions

- B&W, Ch. 1: History
- B&W, Ch. 2: Facts, Law, Institutions, and the Budget (omit Ch. 2.7: The Budget)
- B&W, Ch. 3: Decision Making
- Alberto Alesina and Roberto Perotti, "The European Union: A Politically Incorrect View." *Journal of Economic Perspectives*, Fall 2004, 27-48
- Treaty Establishing the EC, Articles 2 and 3
- Treaty Establishing the EC, Articles 94 and 95
- Treaty Establishing the EC, Part Five, Title I, Chapters 1-2

Section 2: Product Markets

a. The Customs Union

- B&W, Ch. 4: The Microeconomics of Economic Integration
- B&W, Ch. 5: The Essential Economics of Preferential Liberalization
- B&W, Ch. 12: EU Trade Policy
- Mordechai Kreinin, "Effects of the EEC on Imports of Manufactures." *Economic Journal*, September 1972, 897-920
- Harald Badinger et al., "Welfare Effects of the EU's Common Organization of the Market in Bananas for EU Member States," *Journal of Common Market Studies*, 2002, 515-526.

b. The Single Market

- Treaty Establishing the EC, Articles 28 and 30
- *Commission v Germany*
- *Drei Glocken and Kritzinger v USL Centro-Sud and Provincia Autonoma di Bolzano*, Case 407/85, Judgment of 14 July 1988
- *Drei Glocken and Kritzinger v USL Centro-Sud and Provincia Autonoma di Bolzano* , Case 407/85 and *Criminal Proceedings against Zoni* (Case 90/86), Joined Opinion of Mr. Advocate General Mancini, delivered 26 April 1988
- *Commission v Denmark*
- B&W, Ch. 11.1.4: State Aid
- B&W, Ch. 11.2.4: EU Policies on State Aid
- Treaty Establishing the EC, Articles 87 and 295
- *Aid Provided by the French Government to the Renault Group*

c. Competition Policy

- B&W, Ch. 11.1: The Economics of Anti-Competitive Behaviour and State Aid (omit Ch. 11.1.4: State Aid)
- B&W, Ch. 6: Market Size and Scale Effects
- B&W, Ch. 11.2: EU Competition Policy (omit Ch. 11.2.4: EU Policies on State Aid)
- Damien Neven, "Competition Economics and Antitrust in Europe." *Economic Policy*, October 2006, 741-791.
- Council Regulation (EC) No 1/2003
- Treaty Establishing the EC, Article 82 (B&W, Box 11.3)
- *United Brands v Commission*
- Treaty Establishing the EC, Article 81 (B&W, Box 11.2)
- *Consten and Grundig v Commission*
- Cartels: Overview http://ec.europa.eu/comm/competition/cartels/overview/index_en.html
- B&W, Box 11.1
- *MAN/SAVIEM*
- Mergers: Overview http://ec.europa.eu/comm/competition/mergers/overview_en.html
- Council Regulation (EC) No 139/2004
- B&W, Box 11.4
- Nina Pavcnik, "Trade Disputes in the Commercial Aircraft Industry," *World Economy*, May 2002, 733-751.

d. Measuring Impact

- Pinelopi Goldberg and Frank Verboven, "Market Integration and Convergence to the Law of One Price: Evidence from the European Car Market." *Journal of International Economics*, January 2005, 49-73.
- Panos Kanavos and Joan Costa-Font, "Pharmaceutical Parallel Trade in Europe: Stakeholder and Competition Effects." *Economic Policy*, October 2005, 751-798.

Section 3: Product Markets: Special Cases

a. Agriculture

- B&W, Ch. 9: The Common Agricultural Policy

b. Public Utilities

- Liberalisation: Overview
http://ec.europa.eu/comm/competition/liberalisation/overview_en.html
- Treaty Establishing the EC, Articles 86 and 295
- "Towards a Competitive and Regulated European Electricity and Gas Market."
- Richard Green, "Markets for Electricity in Europe." *Oxford Review of Economic Policy*, Autumn 2001, 329-345.
- B&W, Box 11.5: Subsidies and Unfair Competition in the Energy Market
- *EDF/London Electricity merger*
- *EDF/EnBW merger*
- *EDP v Commission*

Section 4: Capital

a. Monetary Union

- B&W, Ch. 13: A Monetary History of Europe
- B&W, Ch. 14: The Choice of an Exchange Rate Regime
- B&W, Ch. 15: The European Monetary System
- B&W, Ch. 16: Optimum Currency Areas
- B&W, Ch. 17: The European Monetary Union
- B&W, Ch. 2.7: The Budget
- General Budget of the European Union for the Financial Year 2008
- Overview of the EU Budget
- Swann, pp. 73-98: The Community Budget and Borrowing Powers
- B&W, Ch. 19: The Financial Markets and the Euro
- Philip Lane, "The Real Effects of European Monetary Union." *Journal of Economic Perspectives*, Fall 2006, 47-66.
- B&W, Ch. 18: Fiscal Policy and the Stability Pact
- The Stability and Growth Pact
- George Akerlof, Andrew Rose, Janet Yellen, and Helga Hessenius, "East Germany in From the Cold: The Economic Aftermath of Currency Union," *Brookings Papers on Economic Activity*, 1991, No. 1, 1-105.

b. Other Determinants of the International Allocation of Saving

- Treaty Establishing the EC, Articles 43, 49, 56, and 294
- Robert Aliber, "Financial Markets and the Growth of Europe," in *Barriers to European Growth: A Transatlantic View*, Robert Lawrence and Charles Schultze, eds., 384-420, 1987.
- Erik Berglöf and Mike Burkart, "European Takeover Regulation," *Economic Policy*, April 2003, 171-213.

Section 5: Labor

- B&W, Ch. 8: Economic Integration, Labour Markets and Migration
- B&W, Ch. 10: Location Effects, Economic Geography, and Regional Policy
- Treaty Establishing the EC, Articles 18 and 39
- Lars Calmfors, "Wages and Wage-Bargaining Institutions in the EMU: A Survey of the Issues." *Empirica*, 28(4), 2001, 325-351.
- Alberto Alesina and Edward Glaeser, *Fighting Poverty in the US and Europe: A World of Difference*, chs. 1 and 8, 2004.
- André Sapir et al., *An Agenda for a Growing Europe: The Sapir Report*, chs. 5-8, 2003.
- Horst Siebert, "Labor Market Rigidities: At the Root of European Unemployment." *Journal of Economic Perspectives*, Summer 1997, 37-54.
- Steven Nickell, "Unemployment and Labor Market Rigidities: Europe versus North America." *Journal of Economic Perspectives*, Summer 1997, 55-74.
- Gilles Saint-Paul, "Why are European Countries Diverging in their Unemployment Experience?" *Journal of Economic Perspectives*, Fall 2004, 49-68.
- Richard Freeman and Ronald Schettkat, "Marketization of Household Production and the EU-US Gap in Work." *Economic Policy*, January 2005, 5-50.
- Edward Prescott, "Why Do Americans Work So Much More than Europeans?" *Federal Reserve Bank of Minneapolis Quarterly Review*, July 2004.

Paper Assignment

(Due in class on April 16)

INSTRUCTIONS

- Choose a news article (not an “opinion” column such as an editorial) published within six months of the due date of the paper. The article may come from *The New York Times*, *The Wall Street Journal*, *The Financial Times*, *The Economist*, or *Business Week* and must relate to the European economy.
- Summarize in one tight paragraph the story contained in the article.
- Identify the important issues posed explicitly and implicitly in the article from the standpoint of European economic integration.
- Use the tools and knowledge you have acquired in this course to analyze the issues you have identified.

REQUIREMENTS

- Your paper may not exceed four pages in length, exclusive of the cover page and of pages devoted solely to endnotes, appendices, figures, and references.
- On the cover page, on successive lines, centered, roughly one-third of the way down the page, place: the title of your article, the name of the periodical, the date of publication, your name, and “Econ 400, Spring 2009”.
- The paper must be typed and double spaced; use margins of one inch and 12-point font.
- Attach a copy of the article (or articles, if the story is told in a series of reports).
- Staple together all of the pages of your submission including the article or articles.
- Number each page of your paper other than your cover page. Consider the cover page to be page zero, but do not number it.

SUGGESTIONS

- Begin immediately your search for a suitable article. To this end, you will probably want to read regularly at least one of the periodicals mentioned above.
- Choose your article carefully. It should be easy to find an article that bears on the European economy. It will be more challenging (though certainly not difficult) to find an article that permits you to discuss issues and tools of relevance to this class. *Remember the point of the exercise: to show me what you have learned in this course.*
- Wherever possible, enrich your writing with examples and references drawn from course discussions and materials. Wherever necessary, define important terms and explain the assumptions underlying your arguments. Points will be awarded for organized and coherent argumentation.
- You are not required to find and consult sources other than those that appear on the syllabus, but you certainly are not prohibited from conducting research in the library or reading ahead on the syllabus! Nor are you prohibited from consulting multiple articles, in various periodicals, covering the same event.

Discussant Duties (Dates vary by group)

INSTRUCTIONS

- Read carefully the assigned case or paper.
- For cases, think about the players in the case, their motives, the operative part of the decision, and its bearing on European integration. Think, too, about what economic models we might have at our disposal to understand the case.
- For papers, think about the author's claims, the methodology, and the conclusions. Consider the relevance of this paper in a study of European economics.
- *After* doing this, at least two members of your group must meet with me to discuss your plan for the discussion at least two days before the presentation.
- *No later than* 9:00 on the morning of your presentation, send me your slides by email. These will then be made available on the Blackboard site.

REQUIREMENTS

- Plan to present for approximately 40 minutes, ten minutes of which will be devoted to a question and answer session. Questions may come from me or from any of your classmates.
- You are encouraged to use PowerPoint or other presentation software to deliver your talk.
- Your goal should not be to simply lay out the case or article from beginning to end. Instead, try to get the class talking and engage them in a discussion of the issues raised by the case or paper. To this end, you will want to have ready several questions that will stimulate discussion.
- You will be graded on the quality of your oral presentation, the quality of your slides, the quality of classroom discussion, and, most importantly, your ability to convey the key points of the case or paper.