

European University Institute
Department of Economics
Winter & Spring 2012
8:45 – 10:45, Wednesday
January 25 – March 14

The Economics of the European Union
Course organizers: Jerome Adda and Ramon Marimon

This course provides students with an overview of important topics relevant to European economics together with a set of theoretical and empirical tools to tackle these questions. Each lecture will focus on a particular topic, and devote some time to empirical facts and policy issues, as well as to ongoing economic research.

Calendar

1. [Jan 25] [Introduction of the course. A monetary and fiscal union?](#) Ramon Marimon (EUI ECO & MWP and UPF - Barcelona GSE)
2. [Feb 1] [The economic history perspective.](#) Youssef Cassis (EUI HEC)
3. [Feb 8] [European labor market and unemployment.](#) Jerome Adda (EUI ECO)
4. [Feb 15] [Competition policy.](#) Massimo Motta (UPF – Barcelona GSE)
5. [Feb 22] [Political economy I.](#) Gerard Roland (U. of Berkeley, Visiting EUI)
6. [Feb 29] [European financial markets.](#) Elena Carletti (EUI)
7. [March 7] [Political economy II.](#) Andrea Mattozzi (EUI)
8. [March 14] [The Macro-economic perspective.](#) Russell Cooper (EUI)

9. [May 9] Student presentations
10. [May 16] Student presentations

Assessment

All participants are expected to read the main references ahead of time and actively participate in the lectures. Those taking the course for credit will be asked to team in pairs and write up a research paper on relevant European issues (max 20 pages) and do a 20 minutes presentation of the main findings. The project has to state clearly a research question, a motivation and has to have an empirical and/or a theoretical development to answer the question. The project can have either a macro or micro perspective.

The project is due after the Easter break to allow time to follow the lectures and write up. Members of the faculty in the department will participate in the presentations and assess the project.

Syllabus

Participants in the course are strongly, strongly, strongly, advised to read the main references listed, ahead of the lectures, which will enhance course participation and effectiveness.

1. [Introduction of the course. A monetary and fiscal union?](#) Ramon Marimon*.

This first lecture, after a brief introduction to the course, will focus on the overall structure of the European monetary and fiscal union, contrasting it with the United States constitutional design, and its current overhaul. The theoretical perspective will be that of optimal design of credible policies and institutions when national, or state, sovereignty is a source of diversity and limited commitment. As a practical 'exercise' we will discuss [the conclusions of the European Council of December 9, 2011](#).

Sargent, Thomas. 2012. ["United States then, Europe now" \(Nobel Prize Lecture\)](#).

Kydland, Finn E. and Edward C. Prescott. 1977. "Rules Rather Than Discretion: The Inconsistency of Optimal Plans." *Journal of Political Economy* 85 (3):473-91.

Mundell, Robert A. 1961. "A Theory of Optimum Currency Areas." *American Economic Review*. 51 (4), 657-665.

2. [The economic history perspective](#). Youssef Cassis.

This lecture will reflect on the development of the European economy since 1945, distinguishing between the fast economic growth during the 'Golden Age', the 'crisis' of the 1970s, the era of deindustrialization and globalization of the late twentieth century, While considering the factors accounting for Europe's economic performance, particular attention will be paid to the institutional setting, the role of European integration and of monetary unification, and more generally the place of Europe in a changing world.

Craft, Nicholas and Gianni Toniolo (eds.), 1996. *Economic Growth in Europe since 1945*, Oxford U. Press.

Eichengreen, Barry. 2007. *The European Economy since 1945*, Princeton University Press.

3. [European labor market and unemployment](#). Jerome Adda.

The lecture will start by presenting key facts on labor markets across European countries and time. We will then investigate the empirical determinants of unemployment focusing on various institutions of the labor

* Materials available in the MWP Moodle page.

market. The course will then review more structural approaches à la Mortensen and Pissarides, with an emphasis on the empirical implementation across different countries.

Nickell, Stephen. 1997. "Unemployment and Labor Market Rigidities: Europe versus North America", *Journal of Economic Perspectives*, 11, 3, 55-74.

4. [Competition policy](#). Massimo Motta.

An introductory lecture covering the following topics: i) Competition policy: why do we need it? ii) Competition law in Europe, and iii) Possible research topics in competition economics: antitrust penalties and institutions; cartels and horizontal agreements; exclusionary conduct, and mergers.

Motta, Massimo. 2004. *Competition Policy. Theory and Practice*. Cambridge University Press, chapter 1.

5. [Political economy I](#). Gerard Roland.

This lecture will focus on the economic analysis of decision-making processes in the European Union.

Hix, Simon, Abdul Noury and Gerard Roland. 2001. *Democratic Politics in the European Parliament*. Cambridge University Press.

Mattila, Miko. 2004. "Contested Decisions: Empirical Analysis of Voting in the European Union Council of Ministers" *European Journal of Political Research*, 43(1), 29-50.

Crombez, Christopher. 1996. "Legislative Procedures in the European Community" *British Journal of Political Science* 26(2) 199-228.

6. [European financial markets](#). Elena Carletti.

The recent financial crisis has reopened the issue of what is the appropriate capital regulation for financial institutions. There is an issue of international coordination among different regulators, and a need to take into account (systemic) market conditions when asking financial institutions to recapitalize. This lecture will consider the rationale for capital regulation and the problems involved with coordination among different regulators.

Allen, Franklin, Elena Carletti, and Robert Marquez. 2011. "Credit Market Competition and Capital Regulation", *Review of Financial Studies*, 24(4), 983-1018.

Dell'Ariccia, Giovanni and Robert Marquez. 2006. "Competition among Regulators and Credit Market Integration," *Journal of Financial Economics*, 79, 401-430.

7. [Political economy II](#). Andrea Mattozzi.

A survey of recent political economy literature studying the incentives of countries to integrate and form international unions.

Alesina, Alberto and Enrico Spolaore. 1997. "On the number and size of nations." *Quarterly Journal of Economics*, 112(4): 1027–1056.

Bolton, Patrick and Gerard Roland. 1997. "The breakup of nations: a political economy analysis." *Quarterly Journal of Economics*, 112(4): 1057–1090.

Harstad, Bard. 2007. "Harmonization and Side Payments in Political Cooperation." *American Economic Review*, 97(3): 871–889.

8. [The Macro-economic perspective](#). Russell Cooper.

This lecture will look at the interaction of fiscal and monetary policy within a currency union. It will start with a discussion of the costs and benefits of creating a monetary union. It will then discuss bailouts in a monetary union.

Cooper, Russell and Hubert Kempf. 2004. "Overturning Mundell: Fiscal Policy in a Monetary Union," *Review of Economic Studies*, 71, 371-97.

Cooper, Russell, Hubert Kempf and Dan Peled. 2008. "Is it is or is it Ain't my Obligation? Regional Debt in a Fiscal Federation," *International Economic Review*, 49, 1469-1504.