

# Goldsmiths' College

Department of Social Policy and Politics

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EC52003A

# Economics of the European Union

## Course handbook

Course code: EC52003A    Level: 2    Taken during: second year of full-time study    Unit value: 1.0

### Course aims

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This course introduces the main economic theories that inform a range of policy debates in the European Union. Thus it will

- demonstrate how standard economic theories about markets and trade underpin the EU's basic construction

- explain, through critical evaluation of standard theory, why the EU may depart from its policy implications in strategic cases, and

- show how controversies about economic policy are really reflections of rival political perspectives.

### Learning outcomes

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Success in the course will mean that students are able to

- understand Ricardian theories of international trade and make a basic comparative welfare analysis of different barriers to trade, and appreciate the limitations of these viewpoints

- appreciate the tension between policies aimed at promoting domestic competition and those aimed at promoting international competitiveness

- understand the essential complementarity between monetary union and labour market integration

### How to use this document

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First read the *Course aims and learning outcomes* given above. These provide the most concise summary possible of what you should know and be able to do by the time of the exam next year: refer back to them often in the coming months, to check on your progress.

The other sections are, in order, an *Introduction* with general information about the teaching and

learning resources for the course, and how to use them; the *Lecture programme*; a *Guide to reading*; details of the (non-assessed) *essays* for each term; a *Teaching calendar*; a set of *past exam papers*, and two *Worksheets* for use in conjunction with the first two seminar sessions.

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## Introduction

### How to contact me

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As a visiting tutor I am not always easy to reach. *The very best method is to e-mail me* – not least because it is the method most likely to produce a prompt reply. My e-mail address is

p.j.wells@open.ac.uk

**Internet** The URL of the EC52003A web-site is:

<http://homepages.gold.ac.uk/julian-wells/>

*Note* that there is *no* “www” part in this URL.

As you might expect, there is copious information on EU economics on the internet (though you will find that a great deal of it is less useful to you than you might think – the internet is good for finding out facts, much less good at helping you to think about them).

Attempting to provide specific, up-to-date and comprehensive references would be an eighth labour of Hercules: instead, you are strongly advised to arm yourself with a copy of the following work, which will teach you how to find appropriate resources for yourself:

Stuart Stein (1999) *Learning, teaching and researching on the internet* (Longman).

However, it would be a pity to overlook one resource, vital for retaining a sense of proportion; try

<http://netec.mcc.ac.uk/JokEc.html>

(The URL is case sensitive.)

### Teaching materials and updates to course arrangements

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As far as possible all course materials and notices will be distributed *only* by electronic methods.

*You must e-mail me now* with details of your e-mail address(es) so that I can set up a distribution list to circulate any changes to course arrangements;

these will also appear on the EC52003A home page. If you have any kind of medical condition or other reason which may make this problematic for you, *please let me know immediately* so that I can make alternative provision for you.

### Lecture programme

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This is the first main section following this one. It lists all the lectures by title, together with the question which presenters of the related seminar will be expected to address. Some lectures are paired, so that one seminar will cover the issues relating to that pair.

**Note** that both seminar membership and topic will be assigned by me, in consultation with students.

A *calendar of lectures and seminar sessions* is on the EC52003A web site. Details of the topic I expect you to present will be posted here soon.

Following each lecture title and seminar topic is a list of references suggested for both primary and secondary study related to the lecture(s) concerned.

These references are to the *Guide to reading* which follows the lecture programme. This contains a coding scheme for, and short notes on, most of the works mentioned: together, these are intended to indicate whether, how, and in what order to use the various references, depending on the topics you decide to specialise in.

### Reading

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This course is primarily one in economic theory – in particular, the theories which underlie discussion of the European Union by most academics and policy-makers.

Familiarity with these theories (without necessarily subscribing to their validity) should give insight into practical developments in the EU and, conversely, being up-to-date with the latter will help you both grasp the content of the theories and assess their relevance.

Hence, while I assume that you already read a serious newspaper every day you should very strongly consider adding to, or replacing, it with the *Financial Times*.

The guide which follows the course outline defines books either as texts, which may be expected to cover most of the syllabus (none covers it all), or as

more specialist works, in which case they are listed according to the areas to which they apply.

The references are intended to indicate which parts of which works relate to each lecture. But ultimately it is up to you to decide what is relevant and useful – this art is part of what you are at university to acquire.

**Key** In the references below numbers before colons refer to chapters (and sometimes sections); numbers and words after colons are page numbers, appendices, *etc.* (*i.e.* Smith 5.1: 21-35 means “Chapter 5, section 1, pages 21 to 35” of the work in question).

**Note** All references to El-Agraa are to the *sixth* edition, unless otherwise stated. Such exceptions should be regarded as *additional* resources, not substitutes.

### Errors and omissions

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These are unavoidable in any document of more than a few sentences: all information gratefully received!

# Lecture programme

## Term one

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### 1) Why trade? Absolute and comparative advantage

**Exercises** on theory of comparative advantage.

Brenton *et al.* 1 and 2  
Chacholiades 2

Gowland 1, 2: 7-16  
Grimwade 1: 1-10

Hunt and Sherman 41: appendix A  
Parkin and King 36: 940-51

### 2) Barriers to trade, and their costs

**Exercises** on the economics of trade barriers (taken with CAP seminar).

Brenton *et al.* 9  
Chacholiades 7 to 9  
Gowland 3 and 4

Grimwade (1989) 1: 24-30, 3 and 4  
Grimwade (1996) 2 to 4  
Hunt and Sherman 41: appendix B

Parkin and King 36: 952-62  
Swann 4

### 3) Common Agricultural Policy

**Seminar** Given the chance, what changes would you make to the CAP? Explain.

Artis and Lee 4  
Barnes and Barnes 8 and 9  
Brenton *et al.* 18  
Cole and Cole 4  
El-Agraa 11 and 12

Grahl and Teague 2  
Grimwade (1996) 6  
Healey 11  
Jovanovic 4  
Molle 11

Nevin 14 to 16  
Swann 8: 246-64  
Ugur

### 4) Beyond comparative advantage: (i) post-Ricardo theories of trade

### 5) Beyond comparative advantage: (ii) arguments for protection

**Seminar** Why do traditional theories of trade fail to convincingly explain trade between industrial economies. What other theories have been proposed to fill this gap? Do they succeed?

Brenton *et al.* 5.1-5, 6  
Chacholiades 4 and 5  
Dent 7  
Gowland 2: 16-27

Grimwade (1989) 1: 10-24, 2  
Grimwade (1996) 8 and 9  
Tyson 1 to 4  
Ugur 13 and 15

Wagner 9  
Walters and Blake 4 to 7

### 6) Competition and industry: (i) structure, conduct, performance

### 7) Competition and industry: (ii) policy issues

**Seminar** Are the EU's competition and industrial policies compatible, or contradictory?

Artis and Lee 5 and 6  
Barnes and Barnes 10 and 11  
Bishop and Kay 9 to 11  
Burke 5 (especially 118-39 and 147-40)  
Cole and Cole 6 and 7  
Dent 9  
El-Agraa (N.B. *third* edition) 7 and 8

El-Agraa (sixth edition) 9 and 10  
Grahl and Teague 4  
Healey 13  
Jovanovic 5 and 6  
Molle 12  
Nevin 12 and 13  
Smith 10 to 13

Swann 10: 322-46  
Tsoukalis (1997) 5  
Tyson 5 to 7  
Ugur 3 and 4  
Waites 4

### 8) Theories of economic integration

**Seminar** Can anyone be shown to benefit from the existence of a customs union?

Artis and Lee 3  
Barnes and Barnes 3  
Brenton *et al.* 13  
Chacholiades 10  
Dent 2

El-Agraa 5 and 7  
Gowland 5  
Healey 7  
Jovanovic 7  
Molle 5 and 6

Nevin 6 to 11 (especially 11)  
Robson Introduction; I: 1 to 3; II: 5; V: 16 and 17  
Swann 4  
Tsoukalis (1997) 4

### 9) 1992: removing barriers to trade in the Single Market

**Seminar** Explain the nature and size of the gains expected from completion of the single market. Are there any reasons to doubt these estimates?

Barnes and Barnes 3  
Dent 3: 62-79  
El-Agraa 8, 15 and 21  
Emerson (1988) 1 to 3

Grahl and Teague 1  
Healey 7 and 8  
Molle 8 and 16  
Nevin 27

Swann 5 and 6  
Tsoukalis (1997) 4  
Wise and Gibb 2 to 4

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## 10) Economic and Monetary Union: (i) the UK balance of payments

Chacholiades 12 to 15  
Gowland 6 to 8, 10  
Prent and Coppock (13<sup>th</sup> edition)  
Section 3

Thirlwall and Gibson 1, 2, 4: 129-36 and  
148-54, 5: 155-6, 162-8 and 175-8, (10 to  
13 too, but skip the technicalities), 14  
and 15

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## Term two

### 1) Economic and Monetary Union: (ii) the Maastricht Treaty

Artis and Lee 12 and 13  
Barnes and Barnes 6  
Chacholiades 20 (especially 20.9)  
De Grauwe (1996) 1  
De Grauwe (1997) 6 and 8  
Dent 3: 79-97

Duff *et al.* 5  
El-Agraa 6 and 17  
Grahl and Teague 3  
Healey 2 to 5  
Jovanovic 2 and 3  
Molle 7 and 10

Nevin 22 and 23  
Swann 7  
Tsoukalis (1997) 7 and 8  
Ugur 6 to 8

### 2) Economic and Monetary Union: (iii) optimum currency areas

**Seminar** What are the criteria for an optimum currency area? What problems might the UK face if it joined an EU single currency system?

Borner and Grubel 8  
Burda and Wyplosz 18 and 19  
Cole and Cole 2, 3 and 10  
De Grauwe (1996) 2 and 3  
De Grauwe (1997) 1 to 4

El-Agraa 6 and 17  
Emerson (1992) 1 to 4, 6, 8 to 10, Annex  
B, Annex C  
Grahl and Teague 8  
Gowland 9.3-9.7, 10.7, 13.3

Healey 3 and 6  
Nevin 11  
Robson IV: 13

### 3) Social Europe: (i) labour market issues

**Seminar** "Implementing the EU's Social Charter would saddle Europe with the uncompetitive, corporatist economy that recent UK governments have taken such pains to abolish." Discuss.

Artis and Lee 10  
Barnes and Barnes 15  
Cochrane and Clarke 1 to 3, 6 to 9  
Dent 10  
El-Agraa 19

Grahl and Teague 5  
Healey 10  
Jovanovic 10 and 11  
Molle 9 and 18  
Nevin 19  
Spencer 2 and 5

Swann 9: 307-21  
Tsoukalis (1997) 6  
Ugur 9 and 10, 16 and 17  
Ulman *et al.* All, but especially 6 and 8.  
Wise and Gibb 5 to 7

### 4) Social Europe: (ii) policy harmonisation

**Seminar** What obstacles might hinder harmonisation of social policy across the EU?

Reading as for previous lecture

### 5) Environment

**Seminar** "Trade barriers are never an appropriate means of promoting environmental issues." Discuss.

Anderson and Blackhurst 1 to 4, 9  
Artis and Lee 9  
Barnes and Barnes 14  
Brenton *et al.* 16

Cole and Cole 9  
Dent 11  
El-Agraa 20  
Jovanovic 12

Nevin 19: 218-21  
Pearce and Turner 5 to 8  
Swann 10: 350-4

### 6) Energy

**Seminar** What consequences will the EU Energy Charter have for producers of oil, coal, *etc.* (i) inside (ii) outside the EU?

Cole and Cole 5  
Commission of the European  
Community

El-Agraa 14  
Molle 13  
Nevin 18

Swann 8: 276-92

## Guide to reading

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THIS section aims to list a number of works which you may find helpful in your work. Brief notes attempt to summarise why you might wish to look at them, and comment on any strengths or weaknesses.

This will appear to be an intimidating list, but you are not expected to read every reference given – as you will find out, some of the works mentioned are alternatives, at different levels of detail and theoretical complexity.

On the other hand it is far from a complete guide to what is a very large field – or even a guide to the contents of the Goldsmiths' Library: exploring its holdings for yourself is a very important part of the learning process.

**Note** that the guide is divided into two parts: a general section listing basic economic texts, texts

### General

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▲ M. Artis (ed.): *Prest and Coppock's 'The UK Economy'* (Weidenfeld and Nicolson).

A standard work on exactly what its title promises: data, description, and a bit of theory on a variety of economic issues and developments. A chapter of the current edition deals with EU issues.

❖ Alan Griffiths and Stuart Wall (2001) *Applied economics* (ninth edition) (Prentice Hall).

Invaluable tool for quickly refreshing your memory of basic micro and macro.

❖ Susan Himmelweit *et al.* (2001) *Understanding economic behaviour: households, firms and markets* (Thomson).

As a contributor to the project on which this text is based, I naturally think this unorthodox micro text is unsurpassable!

For present purposes the sections on industrial structure and innovation are most relevant, but you should also consult it for a treatment of comparative advantage applied to a setting other than trade.

▲ E.K. Hunt and H.J. Sherman: *Economics: an introduction to traditional and radical views* (sixth edition) (Harper and Row).

An antidote to conventional texts: the role of multi-national corporations, and the Third World debt crisis; Third World

### Texts on the European Union

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Ash Amin and Michael Deitrich (ed.s) (1991): *Towards a new Europe? Structural change in the European economy* (Edward Elgar).

An interesting collection of essays on corporate and industrial structure, labour markets, and economic and monetary union.

✓ Michael Artis and Norman Lee (ed.s) (1997): *The economics of the European Union* (second edition) (Oxford University Press).

Fairly recently published and up-to-date. The chapter on social policy is especially good, as are those on competition and industrial policy.

dealing with the European Union as a whole, and some others, and a section devoted to each of the course topics in the order in which they will be taught.

### Key

✓ You should buy at least one of these texts on European Community economics; the 'best' text is the one you get on with best, so you should try these out in the library before spending any money.

❖ You should strongly consider buying these works if your budget permits: they are essential for the topics under which they are mentioned.

▲ Other works which I think you should definitely sample.

trade patterns and the problem of underdevelopment. Two appendices to Chapter 41 deal with the theory of comparative advantage, and the cases for tariffs and free trade.

Michael Parkin and David King (1992): *Economics* (Addison-Wesley).

A beautifully produced standard introductory textbook. Apart from the lavish and intelligent use of colour in the diagrams, etc., it contains case studies, interviews with practising economists, and insights into the development of economic theory.

Note, however, that the authors' theoretical and political commitment to the competitive process is exceptionally marked, even for the authors of introductory textbooks.

❖ Maureen Mackintosh *et al.* (1995) *Economics and changing economies* (Open University Press).

Excellent general introductory text; mainly macro focus.

❖ Stuart Stein (1999) *Learning, teaching and researching on the internet* (Longman).

The sub-title of this work is 'A practical guide for social scientists', which is exactly what it is. Even those who think they are power users will find something useful which they didn't know before.

Ian Barnes and Pamela Barnes (1995): *The enlarged European union* (Longman).

A very useful and easy-to-read introductory text, but don't rely on this alone if you are hoping for more than a bare pass.

▲ Silvio Bornmer and Herbert Grubel (1992): *The European Community after 1992: perspectives from outside* (Macmillan).

In the list primarily for Eichengreen's article on optimum currency areas, but worth looking at for other topics too.

▲ John Cole and Francis Cole (1993): *The geography of the European Community* (Routledge).

The geographer's perspective is strangely under-valued in economic circles; this work provides vital background and

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data, all neatly visualised. Those on a more generous budget might well think about investing in their own copy.

Christopher Dent (1997): *The European economy: the global context* (Routledge).

Exactly what its title promises: theory and practice of international trade as applied to Europe and its relations with the rest of the world. Andrew Duff et al. (ed.s) (1994): *Maastricht and beyond: building the European Union* (Routledge).

Many of the contributors are or have been at the centre of the decision-making process; but they write from a “politics and policy” viewpoint, so only background reading for this course.

✓ A.M. El-Agraa (ed.) (2001): *The Economics of the European Community* (sixth edition) (Phillip Allan).

Covers similar ground to Swann, but at perhaps a higher level of detail/difficulty. El-Agraa includes a large selection of basic EU economic statistics. Note that the *third* edition should also be consulted on competition and industrial policy issues.

❖ John Grahl and Paul Teague (1990): *1992 – the big market: the future of the European Community* (Lawrence and Wishart).

Essential reading for study of the social dimension of the Single Market, and for competition and industrial policy; highly recommended and thought-provoking reading for all other parts of the syllabus.

▲ Nigel Healey (ed.) (1995): *The economics of the new Europe: from Community to Union* (Routledge).

Up-to-date commentary, rather than a course text: see especially Michie and Kitson’s article on fixed exchange rate systems such as the EMS.

Miroslav Jovanovic (1997): *European economic integration* (Routledge).

Up-to-date and with some useful quantitative data. However, it assumes that you are already reasonably familiar with the economic tools taught on this course, so regard it as supplementary reading when preparing for the exams.

✓ Willem Molle (1990): *The economics of European integration* (Dartmouth).

A very comprehensive text, with good reports from previous years’ students. Unusual in providing an adequate account of labour market and other issues in the ‘social dimension’ of the EU; the only significant topic omitted is environmental policy.

✓ Edward Nevin (1990): *The economics of Europe* (Macmillan).

An especially full and clear account of the theory of customs unions.

Neill Nugent (1994): *The government and politics of the European Union* (third edition) (Macmillan).

Latest edition of a standard text; the title says it all.

▲ Frans Somers et al. (1994): *European Community economies* (second edition) (Pitman).

A valuable reference text: if you find yourself writing sentences like “France’s attitude on policy X was influenced by...” check in Somers before you plunge ahead.

Richard Sakwa and Anne Stevens (ed.s) (2000): *Contemporary Europe* (Macmillan).

An excellent background text, perhaps especially useful for students from outside either the EU or wider Europe. But don’t imagine that you can pass the exam using it.

Dennis Swann (ed.) (1995): *The economics of the Common Market* (eighth edition) (Penguin).

Once more bang up-to-date (and now subtitled *Integration in the European Union*) this standard work has been around for more than 25 years.

▲ Loukas Tsoukalis (1991 and 1993): *The new European economy: the politics and economics of integration* (first and second editions) (Oxford University Press).

Important background reading on the topics it covers: worth comparing the two editions with each other and with Tsoukalis (1997).

▲ Loukas Tsoukalis (1997): *The new European economy revisited* (Oxford University Press).

Radically rewritten version of his (1991) and (1993); any or all three are highly recommended.

Bernard Waites (1993): *Europe and the wider world* (Open University/Routledge).

Essays on Europe and the third world, and Europe in the global economy, are most relevant to this course, but the chapters on relations with the U.S. and Russia are also useful background.

❖ Mehmet Ugur (1995): *Policy issues in the European Union* (Greenwich University Press).

A very valuable collection of articles, some collected from other texts and others from the journal literature. Serious students should strongly consider buying this, despite the execrable printing.

## Dissenting voices

▲ Ken Coates MEP and Michael Barratt Brown (ed.s) (1993): *A European recovery programme* (Spokesman).

Left-wing counter-blast to official thinking in the wake of the Maastricht Treaty.

Stuart Holland (1980): *UnCommon Market*.

A highly critical analysis by a (very able) former Labour MP.

W.R. Lewis (1971): *Brussels or Rome?* (Institute of Economic Affairs).

The IEA is the main British think-tank for extreme free-market enthusiasts, with close ties to Thatcherite policy-makers.

▲ John Palmer (1988): *Europe without America?* (Oxford University Press).

A radical’s look at the possible future evolution of EU institutions, by the European Editor of the *Guardian*.

**International trade: (i) texts**

Paul Brenton *et al.* (1997): *International trade: a European text* (OUP).

Aimed at those doing specialist international trade options, thus at a level of technical detail beyond that of the present course – but one way to do well in a course is to attempt material above its intended level.

Miltiades Chacholiades (1990): *International economics* (McGraw-Hill).

A close substitute for Brenton *et al.* with if anything even more comprehensive treatment: don't let it intimidate you. Like most texts in this field, a militant pro-free-trade bias.

▲ David Gowland (1983): *International economics* (Croom Helm).

A brisk, not to say breathless, introduction to the topic: extremely refreshing realism (or cynicism?) about economists and economic theorising. Less technical than Chacholiades, but assumes that you already know some economics.

William Kerr and Nicholas Perdikis (1995): *The economics of international business* (Chapman and Hall).

As its name suggests, this is the “executive summary” of received wisdom on international trade theory. Useful for orientation and background.

P. Robson (ed.) (1972): *International economic integration* (Penguin).

This book of readings contains a number of the original works referred to in the textbooks.

**International trade: (ii) trade in practice**

Nigel Grimwade (1989): *International trade – new patterns of trade, production and investment* (Routledge).

A comprehensive guide to patterns of world trade: where it is given as a reference, it is essential.

Nigel Grimwade (1996): *International trade policy: a contemporary analysis* (Routledge).

Part complement to, part substitute for, Grimwade's other text: they both contain some theory, but this one concentrates on trade policy and its formation, rather than the patterns of trade which it reacts with.

▲ A.G. Kenwood and A.L. Lougheed (1992): *The growth of the international economy 1820-1990* (third edition) (Routledge).

It has been said that those who are ignorant of history are condemned to repeat it: study of this work will help save you from this fate.

Philip King (ed.) (1990): *International economics and international economic policy: a reader* (McGraw Hill).

A handy collection of commentaries on both theory and practice.

▲ Harry Shutt (1985): *The myth of free trade* (Basil Blackwell).

That rare and useful commodity, a work debunking free trade orthodoxy in general, and in particular the idea that it explains post-1945 prosperity.

**Common Agricultural Policy**

Richard Body (1982): *Agriculture: the triumph and the shame* (Maurice Temple Smith).

A farmer and Tory MP attacks the whole system of agricultural support in the developed world.

Alison Burrell, Berkely Hill and John Medland (1990): *Agrifacts: a handbook of UK and EEC agricultural and food statistics* (Harvester Wheatsheaf).

Exactly what its title promises.

❖ John Marsh *et al.* (1991): *The changing role of the Common Agricultural Policy* (Belhaven Press).

A very valuable analysis of the effects of the CAP; this does not mean that one has to take seriously its interesting, but probably utopian, proposals for replacing it.

**Competition and industrial policy**

▲ Michel Albert (1993): *Capitalism against capitalism* (Whurr).

Continental view of the different traditions of capitalism.

Matthew Bishop and John Kay (ed.s) (1993): *European mergers and merger policy* (Oxford University Press).

Useful data and commentary, from orthodox neo-classical perspective.

▲ Terry Burke, Angela Genn-Bash and Brian Haines (1991): *Competition in theory and practice* (second edition) (Routledge).

Slightly uneven work which doesn't always quite live up to its own pretensions: nonetheless well worth looking at for comparative survey of different states' policy regimes.

▲ Harvie Ramsay (1992): 'Whose champions? Multinationals, labour and industry policy in the European Community after 1992', *Capital & Class* **48**, 17–39.

The issues from a Marxist perspective.

▲ Keith Smith (1986): *The British economic disaster* (Penguin).

Especially useful for its account of Japan's Ministry of International Trade and Industry.

Laura D'Andrea Tyson (1993): *Who's bashing whom? Trade conflict in high-technology industries* (Institute for International Economics/Longman).

A justification of industrial policy and the associated trade policies; the author has moved from academia to being one of President Clinton's economic advisers.

▲ Leslie Wagner (1981): *Readings in applied microeconomics* (Oxford University Press).

A very useful account of learning effects; also some material you may find useful on company mergers.

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## 1992: the Single Market

Department of Trade and Industry: *The Single Market: the facts* (various editions).

Department of Trade and Industry: *The Single Market: an action checklist for business* (various editions).

Two of a series of government-produced information *cum* propaganda publications for business-people on 1992.

Michael Emerson *et al.* (1988): *The economics of 1992* (Oxford University Press).

Officially-sponsored summary of the EU's research into the likely effects of the Single Market.

## Theory of integration

Bela Balassa (1961, reprinted 1982): *The theory of economic integration* (Greenwood Press).

Classic, comprehensive text.

## International macro-economics

Michael Burda and Charles Wyplosz (1997): *Macroeconomics: a European text* (second edition) (Oxford University Press).

## Economic and Monetary Union

▲ Michael Emerson *et al.* (1992): *One market, one money* (Oxford University Press).

A standard compendium, but you may well find it rather advanced.

❖ Paul De Grauwe (1997): *The economics of monetary integration* (third edition) (Oxford University Press).

A good introductory text on this complex field: Part I is most relevant to the present course, and thorough study of it will take you a long way to success.

Paul De Grauwe (1996): *International money* (second edition) (Oxford University Press).

Most of this work is well beyond the scope of this course, but those interested in this topic should look at the descriptive chapters on fixed exchange-rate systems.

▲ Ellen Kennedy (1991): *The Bundesbank: Germany's central bank in the international monetary system* (Royal Institute of International Affairs/Pinter).

Somewhat dry, but admirably compact, account of its topic; a required companion to Marsh (*see below*).

❖ David Marsh (1992): *The Bundesbank: the bank that rules Europe* (Heinemann).

Essential reading where it's given as a reference: if you can't see your way to reading this, don't bother with the topic.

Well-researched and generally scholarly, although Marsh's journalistic background occasionally betrays him into letting clichés do his thinking for him.

Alfred Steinherr (ed.): *30 years of European monetary integration* (Longman).

As its title suggests, a historical account of debates and developments.

▲ Geoffrey Owen (1992): 'A turn in European politics', *Socialist Action Review* 2, July 1992, 3–8.

John N. Smithin (1991): 'European monetary arrangements and national economic sovereignty', in Amin and Deitrich (1991).

Heterodox critique of the case for EMU.

❖ A.P. Thirlwall and Heather D. Gibson (1992): *Balance-of-payments theory and the United Kingdom experience* (fourth edition) (Macmillan).

Essential reading for those taking a special interest in the UK's trade balance.

John Williams, Karel Williams and Colin Haslam (1991): "Leap before you look": the implications of EMU for the future of the EC'; in Amin and Deitrich (1991).

Sets out the underlying political agenda to the Maastricht version of EMU.

## Social Europe (i) general

Thomas P. Boje (1991): 'Flexibility and fragmentation in the labour market'; in Amin and Deitrich (1991).

Plenty of data on its topic, explored from the same heterodox left position as other contributions to the volume.

Labour Research Department (1991): *1992 and beyond: a trade unionist's guide to developments in the European Community*.

As its name implies, a labour-movement oriented guide to the issues.

❖ Mark Wise and Richard Gibb (1993): *Single Market to Social Europe* (Longman).

Once you've made up your mind which basic text to buy your next task is decide whether this, or Grahl and Teague, should be your next purchase – it is a rare (the only?) text on the EU written with social policy agendas in mind, and also one of the few to take a thoroughly sceptical stance on the Community's claims for itself.

## Social Europe (ii) labour markets

John Addison and Stanley Siebert (1997): *Labour markets in Europe: issues of harmonization and regulation* (Dryden).

Some fairly hard-core labour economics here, going beyond the scope of this course, but also some useful background commentary. It also includes texts of the relevant sections of the various treaties.

▲ A.B. Atkinson and Gunnar Viby Mogensen (ed.s) (1993): *Welfare and work incentives; a north European perspective* (Oxford University Press).

Really essential if you are doing this topic: read in conjunction with Grahl and Teague.

▲ Robert Boyer (ed.) (1988): *The search for labour market flexibility* (Oxford University Press).

Seven case studies of major EU countries, plus four chapters of review and analysis; adds information from southern Europe to Atkinson and Mogensen's study.



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Jeff Bridgford and John Stirling (1994): *Employee relations in Europe* (Blackwell).

A useful comparative account of labour market issues and institutions across Europe.

Shows how different national approaches to the Social Chapter can be understood in the light of their different political development.

Jack Eaton (2000) *Comparative employment relations* (Polity Press)

A very useful introductory text in its topic, hence essential background reading here.

▲ Barry Eichengreen, 'European Monetary Union and regional unemployment', Ulman *et al.* (1993), chapter 8.

Eichengreen is a name to conjure with in this field (see De Grauwe, for example).

▲ Michael Gold (ed.) (1993): *The social dimension: employment policy in the European Community* (Macmillan).

An introductory text on the content and implications of EU policies: it should be your first stop in this topic after the general texts on EU economics.

Richard Hyman and Anthony Ferner (ed.s) (1994): *New frontiers in European industrial relations* (Blackwell).

Particularly useful for its contributions on 'feminisation' of the labour force and on developments in eastern Europe.

Richard Layard *et al.* (1994): *The unemployment crisis* (Oxford University Press).

Combines theoretical review with international empirical comparisons. Clear exposition well-aimed at undergraduates: don't be put off by occasional outbreaks of algebra if this doesn't appeal.

▲ Jonathon Michie and John Grieve Smith (1994): *Unemployment in Europe* (Academic Press/Harcourt Brace Johanovic).

Extended critical treatment.

Daniel J.B. Mitchell and Jacques Rojot, 'Employee benefits in the single market', Ulman *et al.* (1993), chapter 6.

Valerie Symes (1995): *Unemployment in Europe: problems and policies* (Routledge).

Valuable survey of EU-level policy, plus case studies giving useful background.

Paul Teague and John Grahl (1992): *Industrial relations and European integration* (Lawrence and Wishart).

A comprehensive and authoritative survey.

Lloyd Ulman, Barry Eichengreen and William T. Dickens (ed.s) (1993): *Labor and an integrated Europe* (Brookings Institution).

In general, a useful U.S. perspective; in particular, useful for its chapters on social security issues and on the implications of monetary union for unemployment (see course outline for references).

### **Social Europe (iii) social security**

Allan Cochrane and John Clarke (1993): *Comparing welfare states* (Sage/Open University).

Case studies compare the UK with German, Swedish, Irish and Hong Kong systems, including discussion of the harmonisation of east and west German systems post-1989.

### **Environment**

Kym Anderson and Richard Blackhurst (1992): *The greening of world trade issues* (Harvester Wheatsheaf).

David Pearce and R. Kerry Turner (1990): *Economics of natural resources and the environment* (Harvester Wheatsheaf).

### **Energy**

European Commission (1992): *Energy in Europe; a view to the future* (Commission of the European Communities).

Comprehensive and, by definition, authoritative statement of the issues as seen from Brussels.

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## **Essay questions**

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There is no element of coursework assessment for EC52003A: consequently the following essay topics are essentially voluntary. However, you are strongly advised to attempt them, in your own interests.

Competence in the techniques of analysis involved in the first essay will lay the foundation of good

### **Term 1**

What would be the expected effects of replacing the present CAP with a system of deficiency payments modelled on the UK's farm support policy before it joined the EU?

Besides the net effect on economic welfare, consider carefully any distributional effects of such a change in policy.

answers to at least two exam questions, and in the second for at least three.

It is best to do the assignments (and to receive feedback) while the teaching of the material is still fresh in your mind. Aim to hand them in not later than the penultimate Tuesday of the relevant term.

### **Term 2**

"Whatever the truth about the shape of the long-run Phillips curve, considering the question in the international context leads to the conclusion that the issue of European monetary union cannot be considered in isolation from labour market policies."

Illustrate this claim by the use of appropriate four-quadrant diagrams, and discuss its possible consequences.

**PROVISIONAL lecture and seminar programme 2001-2**

	<b>0900 Lecture (normally)</b>	<b>1000 Seminar (normally)</b>	
<b>Date</b>			
2/10	Introduction to trade	<b>NB all subject to review</b>	
9/10	Barriers to trade	Trade exercises	-----
16/10	Common Agricultural Policy (CAP)	Barriers exercises	
23/10	Beyond comparative advantage (BCA) (1): Post-Ricardo theories of trade	CAP seminar	-----
30/11	Beyond comparative advantage (2): Arguments for protection	TBA	
6/11	<b>Monitoring week</b>		
13/11	Competition & industry (1): Industrial economics – structure/conduct/performance	BCA	-----
20/11	Competition & industry (2): Policies	-----	
27/11	Integration theory	Competition & industry seminar	-----
4/12	1992: the Single Market	TBA	
11/12	UK balance of payments	Integration theory and 1992	-----
<b>Christmas holiday</b>			
15/1	European Monetary Union (EMU) (1): Maastricht and macro-economic policy	TBA	
22/1	European Monetary Union (EMU) (2): x-rate and labour market flexibility	Problems of EMU	-----
29/1	Social Europe (1): labour markets	TBA	
5/2	Social Europe (2): the welfare state	Social Europe (1)	
12/2	Environment	TBA	
19/2	<b>Monitoring week</b>		
26/2	Energy	Social Europe (2)	-----
5/3	Group A: Environment	TBA	
12/3	Group A: Energy	Environment	
19/3	Course review	Energy	
26/3	REVISION	REVISION	
<b>Easter holiday</b>			
1/5	REVISION	REVISION	

## ***Past exam papers***

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Please note that in some cases these are the papers as first drafted, and not the precise paper actually set.

Any differences are purely minor, however: in all

cases you should find that the questions are reliable guides to the sort of task you may be set in an actual exam.

**All papers are THREE HOURS**

### **1993**

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Answer FOUR of the following TWELVE questions

1. 'Since the internal trade of the EC consists of similar economies exchanging similar goods, it cannot be beneficial to member countries.' Discuss.
2. How is it that quantitative controls on imports can transfer economic welfare from the importing country to the exporting one? Does this mean that import controls are always harmful?
3. The UK government's 1992 awareness programme adopted the slogan 'Europe: open for business'. In what ways has the single market made Europe 'open for business'? Does this mean that Europe is not 'open to people'?
4. Does the Lomé convention confer valuable privileges on the ACP group of countries, or does it rather perpetuate a dangerous dependency on European states?
5. What points should be considered in deciding whether Britain's exit from the European ERM will help solve its balance of payments problems?
6. 'The events of the past year in European currency markets show that the EC's plans for Economic and Monetary Union are hopelessly optimistic.' Discuss.
7. Is the UK government's opt-out from the Social Chapter of the Maastricht Treaty an attempt to gain a competitive advantage over other EC members through 'social dumping', or a welcome recognition of the need for more flexible labour markets?
8. What obstacles stand in the way of ambitions to harmonise social security provision in the EC?
9. Explain the different implications for consumers, farmers, taxpayers and others of (a) deficiency payments systems, AND (b) the EC's Common Agricultural Policy. Is the latter an efficient instrument for achieving its stated aims?
10. 'The EC needs an industrial policy that will assure it an independent presence in key high-technology industries.' Is this a desirable strategy? Is it a feasible one?
11. Is trade liberalisation compatible with concern for the environment? Discuss, with reference to the EC's policies in these areas.
12. Which objective should European energy policy put first: security of supply, or cheapness? How suited to either of these aims are the EC's energy policies?

### **1994**

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Answer FOUR of the following TWELVE questions

1. What arguments can be made to justify barriers to trade from the point of view of (a) individual countries and (b) the world as a whole? How persuasive are they?
2. Evaluate the static and dynamic effects of the EC's Single Market programme on economic welfare.
3. 'The Lomé agreements are no more than a system of neo-colonial exploitation.' Discuss.
4. In what circumstances can countries expect to benefit from joining a customs union?
5. Does the UK's experience since leaving the ERM support the view that devaluation is a remedy for trade deficits?
6. What costs and benefits are to be expected from the creation of a single EC currency?
7. In what ways might European labour markets be said to be inflexible? What policy implications flow from different interpretations of this concept?
8. 'EC social welfare systems are likely to be harmonised downwards rather than upwards.' Discuss.
9. Is the Common Agricultural Policy (a) a fair AND (b) an efficient way of encouraging agricultural modernisation?
10. How can the EC's commitment to eradicating anti-competitive practices be reconciled with official support of the Airbus consortium?
11. Do environmental regulations help or hinder free trade?
12. 'The European Energy Charter is little more than a licence to plunder cheap natural resources in Russia.' Discuss.

## Answer FOUR of the following TWELVE questions

## 1. EITHER

'The development of the EU can be explained by remembering that it is an economic means to a political end.' Discuss.

OR

How far are Ricardian theories of international trade relevant to the modern world economy?

2. The Common Agricultural Policy is criticised for perpetuating inefficient peasant producers – yet the makers of agricultural machinery are among those most worried by the prospect of the Policy's reform. Reconcile this apparent paradox.

3. It has been claimed that there is only room for one make of supersonic airliner to follow Concorde. If true, does this argue for or against official support for European aerospace companies?

4. 'The provisions of the various Lomé agreements oscillate between misguided benevolence and cynical manipulation.' Is this fair comment?

5. Are static effects or dynamic effects more important in explaining why countries set up customs unions?

6. In what ways is the Single Market programme supposed to increase economic welfare in the EU? Evaluate the EU's claims as to the size and origin of these effects.

7. 'Any improvement in the UK's balance of trade since September 1992 is due more to domestic economic reforms than to devaluation of sterling.' Discuss.

8. To what extent – and in what sense – have the countries of the EU achieved economic convergence? Is this a necessary pre-condition for monetary union?

9. 'European integration is impossible without the formation of a single labour market: hence national opt-outs from the Social Charter should not be allowed.' Evaluate this claim.

10. 'Rising dependency ratios will do more to change the nature of European social security systems than attempts to harmonise standards of provision.' Explain and assess this view.

11. 'Germany's waste paper glut is a classic illustration of how environmental regulations may reduce welfare through distorting trade.' Discuss this claim in the context of calls for stronger EU-wide policies on the environment.

12. Does political turmoil in Eastern Europe mean that the EU should defer plans to liberalise its energy markets?

## Answer FOUR of the following TWELVE questions

## 1. EITHER

'Treating the European Community as a purely economic venture is a betrayal of the founders' vision.' Discuss.

OR

'The facts of modern international trade cannot be explained by appealing to theories that are merely elaborations of the principle of comparative advantage.' Discuss.

2. Using appropriate diagrams to illustrate the principles involved, explain how the EU's Common Agricultural Policy has enabled internal wheat prices to be lower than world market prices for much of the last 12 months. Evaluate the overall success of the CAP in the light of this achievement.

3. Has the EU struck the right balance between promoting competition and supporting high-technology industries? Explain your answer.

4. Are the provisions of successive Lomé agreements well-calculated to assist the development of signatory countries? What alternative strategies might do better?

5. 'Viner's concept of trade diversion exploded the myth that customs unions are necessarily good for their members.' Explain this claim, and discuss why countries might nonetheless rationally seek to join a customs union.

6. Who stands to gain, and who stands to lose, from the completion of the European single market – and why?

7. Some German industrialists are said to be pressing the Bundesbank to allow the Deutschmark's exchange rate to fall. What economic ideas are relevant to assessing this project, and does Britain's experience since 1992 provide empirical support for it?

8. 'German unification demonstrates that it is the state of the real economy, not monetary and fiscal criteria, that determines the fate of schemes for a single currency.' Evaluate this claim, and explain what light it sheds on the Maastricht Treaty's plan for European Monetary Union.

9. In what ways may concepts of labour market flexibility be important to the success of a single European economy?

10. Does political turmoil in France over social security reform demonstrate that any harmonisation of European social security systems must be in a downward rather than an upward direction?

11. 'Measures supposedly intended to protect the environment are too often merely a cover for protectionism.' If true, what implications would this claim have for the goal of an EU-level environmental policy?

12. Giving reasons, discuss whether or not plans to de-regulate European energy markets are likely to increase or decrease (a) the security, and (b) the cost, of supplies.

## Answer FOUR of the following TWELVE questions

## 1. EITHER

The Schumann Plan aimed to make a further European war 'not only unthinkable, but materially impossible'. Assess the contribution of European Union to this project, and its continued relevance.

OR

How successful are Ricardian theories in (i) explaining existing patterns of international trade and (ii) in justifying its further liberalisation?

2. How do the measures of which the Common Agricultural Policy is comprised create economic inefficiency? What other methods of protection might entail less inefficiency?

3. Would the limited market for so-called 'super-jumbo' airliners justify subsidising Airbus Industrie's plan to develop one? Discuss, with reference to the EU's competition and industrial policies.

4. 'If the Lomé agreements were as bad for less-developed countries as some claim, they would not have signed them.' Giving reasons, say whether or not you agree with this assessment.

5. Explain the sources of the static and dynamic effects of joining a customs union, and discuss which of these should be most influential in the decision whether to do so.

6. What economic benefits are supposed to flow from the EU's Single Market programme? Why did the Cecchini Report recommend a policy of macro-economic expansion to accompany it?

7. Why might the EU want to prevent members which do not join a single currency from indulging in competitive devaluations? Would such devaluations benefit their perpetrators?

8. 'The Maastricht criteria for membership of a single European currency merely enforce convergence on monetarist policy shibboleths, not on the characteristics of an optimum currency area.' Discuss.

9. "Flexibility" is too confused and incoherent a concept to be helpful in assessing the Social Charter's effects on European labour markets.' Explain and assess this view.

10. Why might a single European social security system be said to be necessary for a single European market? What difficulties might stand in the way of setting up such a system?

11. Discuss whether there be an economic justification for EU-wide environmental policies on matters where there are no physical spill-overs between states.

12. The European Energy Charter has been described as meaningless without the participation of the Soviet Union's successor states. How does this affect plans to liberalise western European energy markets?

## Answer FOUR of the following THIRTEEN questions

1. 'Economic policy disputes in the EU can only be understood if it is remembered that the Union is fundamentally a political project.' Discuss.

2. Review the economic arguments against the proposition that universal free trade is always the best policy. Distinguish between those that look only to a single country's interests and those which consider the world economy as a whole.

3. Does recent success in holding European wheat prices below world market levels show that the CAP needs only detailed changes, not fundamental reform?

4. 'Too much concern to promote competition will hamper Europe's high-technology industries.' Explain and assess this assertion.

5. How far do the Lomé agreements promote a suitable model of development for the ACP group of countries?

6. Demonstrate how the concept of trade diversion makes it difficult to show that a country will necessarily benefit from joining a customs union, and discuss why it might still be economically rational for it to do so.

7. Critically evaluate the view that the changes brought by the European Single Market have nothing to offer workers and consumers.

8. British exporters are worried about the recent strength of the pound. Discuss what should be taken into account in deciding whether a devaluation would reduce the country's trade deficit.

9. 'A monetary union whose members are chosen on purely monetary criteria, rather than on the convergence of their real economies, is doomed to fail.' Assess this claim.

10. Discuss the claim that Europe's unemployment problem would be better solved by stimulating aggregate demand, rather than by promoting more flexible labour markets.

11. Why might a harmonised European social security system be economically desirable? What difficulties might stand in the way of setting up such a system?

12. Is concern for the environment a good reason for interfering with trade liberalisation? Discuss, with reference to the EU's policies in these areas.

13. 'The break-up of the Soviet Union means that this is exactly the wrong moment to liberalise the EU's energy markets.' Discuss.

## Answer FOUR of the following THIRTEEN questions

1. 'The European Union is a political project carried out by economic means.' Evaluate this claim with reference to any two fields of economic policy.
2. Is it necessarily true that barriers to trade reduce economic welfare, either for individual countries or for the world as a whole?
3. 'The paradox of the CAP is that it has managed to encourage both over-investment in machinery and inefficiently-small producers.' Discuss.
4. Why might the EU's competition authorities seek to encourage, rather than halt, the current merger movement in the defence and aerospace industries?
5. What model of development should the ACP group of countries follow – and how far do the Lomé agreements support such a model?
6. Can customs unions be expected to benefit their members? Explain your answer.
7. The elimination of non-tariff barriers to trade in the European Union is a micro-economic policy – so why does it need to be complemented by macro-economic measures?
8. What conditions must be met if devaluation is to be helpful in solving problems with a country's balance of trade?
9. 'The Maastricht criteria are irrelevant to the problem of choosing the members of an optimum currency area'. Assess this claim.
10. 'The Social Charter is a charter for pricing workers out of jobs.' Discuss.
11. What obstacles are there in the way of setting up a single European social security system, and why do they matter?
12. Should Europe use trade barriers to enforce environmental policies?
13. How successful is the European Energy Charter likely to be in resolving the tension between cheap energy and security of supply?

## Answer FOUR of the following TWELVE questions

1. "Since the economic theories which justify free trade do not explain the actual pattern of modern trade, protectionism is justified." Evaluate this claim.
2. In what sense can the CAP be said to be inefficient? Does this imply that it is also ineffective or unfair?
3. What economic issues should the EU competition authorities take into account when considering whether to allow major take-over bids, such as that by Vodafone for Mannesmann?
4. "The old Lomé system represented a failed model of development, and its scrapping this year should be welcomed." Discuss.
5. Evaluate the economic arguments for joining a customs union, and discuss how far the empirical evidence supports them.
6. What contribution to economic welfare can be expected from the EU's policy of eliminating non-tariff barriers to trade within Europe?
7. Discuss the view that joining the European single currency while sterling is strong would be disastrous for British industry.
8. "Thinking about optimal currency areas means thinking about labour markets, not about money." Explain this claim.
9. What is meant by so-called 'Euro-sclerosis', and does the Social Charter contribute to it?
10. Can there ever be a single EU welfare state? Explain your answer.
11. "Interfering with trade for alleged environmental reasons will reduce economic welfare, not enhance it." Do the EU's policies in this area bear out this claim, or otherwise?
12. Should the European Energy Charter be scrapped, in the light of events in eastern Europe?

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Answer FOUR of the following TWELVE questions

1. How does the Leontief Paradox undermine the case for free trade?
2. Does the notion that there may be an optimum tariff mean that protectionism is a better policy than free trade?
3. 'Even if the Common Agricultural Policy worked as intended, it would still be both inefficient and unfair.' Explain and assess this claim.
4. "The EU's competition policy should be always one of discouraging industrial concentration." Evaluate this claim.
5. Does the fact that Airbus Industrie has 30 orders for its planned super-jumbo class aircraft, while Boeing has none, mean that the latter is a lame duck which the U.S. government should not support?
6. "The only economic gains from customs unions and common markets arise from dynamic effects." Explain this claim and assess the arguments for it.
7. Why might European exporters be happy to see a weak Euro? Does this mean that the European Central Bank should not attempt to maintain its value?
8. 'Joining the single currency means giving up the fight against unemployment.' Explain and evaluate this statement.
9. Discuss the view that the European Social Charter will lead to inflexible labour markets.
10. 'Existing national welfare provision in the EU is too diverse to allow future harmonisation.' Assess this claim.
11. What arguments could be used to sustain the claim that the EU should have an environmental policy, rather than leave such matters to member states. How valid are they?
12. 'Security is better than opulence,' according to Adam Smith. Evaluate the EU's energy policies in the light of this principle.

**Space here for specimen? (to illustrate possible sectionalising of exam paper)**

## Seminar worksheet 1

### Absolute and comparative advantage

1) The following table shows the tonnes of wheat and the metres of cloth that the US and the UK can produce with one hour of labour time in four different hypothetical situations:

	<b>Case 1</b>		<b>Case 2</b>		<b>Case 3</b>		<b>Case 4</b>	
	<b>US</b>	<b>UK</b>	<b>US</b>	<b>UK</b>	<b>US</b>	<b>UK</b>	<b>US</b>	<b>UK</b>
<b>Wheat</b>	<b>4</b>	<b>1</b>	<b>4</b>	<b>1</b>	<b>4</b>	<b>1</b>	<b>4</b>	<b>2</b>
<b>Cloth</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>1</b>

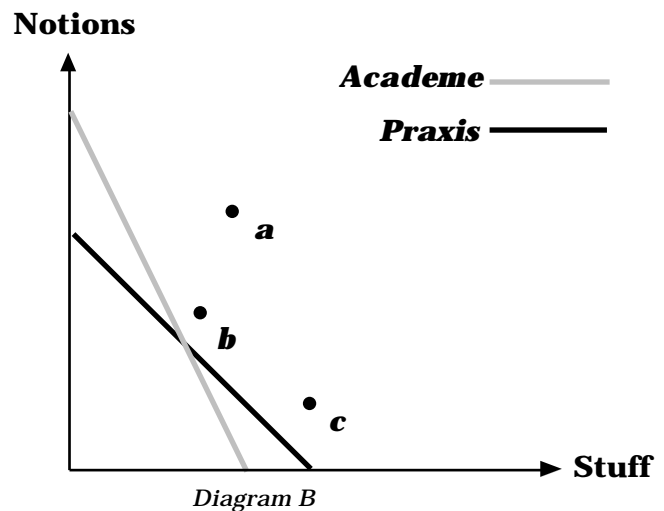
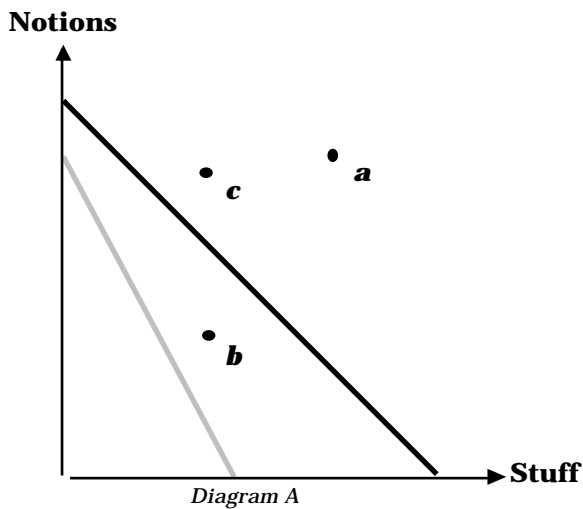
In each case:

- (a) identify the country which has an *absolute* advantage in each commodity (if either of them does)
- (b) identify the country which has a *comparative* advantage in each commodity (if either of them does)
- (c) state whether trade is possible, and on what basis.

2) Consider the production possibility diagrams below; in each case

- (a) state which good each country should specialise in
- (b) explain why
- (c) specialisation and trade allow each country to reach combinations of goods not otherwise attainable — but which points?

State which of the two countries (if either) can reach each of combinations A, B and C; would they *want* to reach each point? Explain your answers.





## Seminar worksheet 2

### Barriers to trade

Consider the diagrams below: they represent the effects of different barriers to trade on the domestic market for some commodity X in some country Y:  $S_d$  and  $D_d$  are the domestic supply and demand curves for X, while  $S_w$  shows that from Y's point of view there is an infinitely-elastic supply of X obtainable on the world market at a price  $P_w$ .

The barriers illustrated are (a) a tariff, (b) a quota for imports designed to allow the same quantity of imports as the tariff in (a), and (c) a subsidy designed to encourage the same amount of domestic production as the tariff in (a): the question is, which is which?

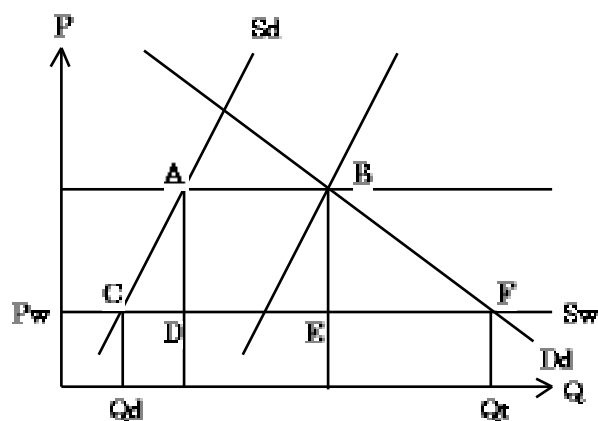
Identify which diagram illustrates which barrier, and in each case:

(i) identify  $P_d$ , the price paid for X by domestic consumers;  $Q_d^*$ , the amount of domestic production of X; and  $Q_t^*$ , the total domestic consumption of X.

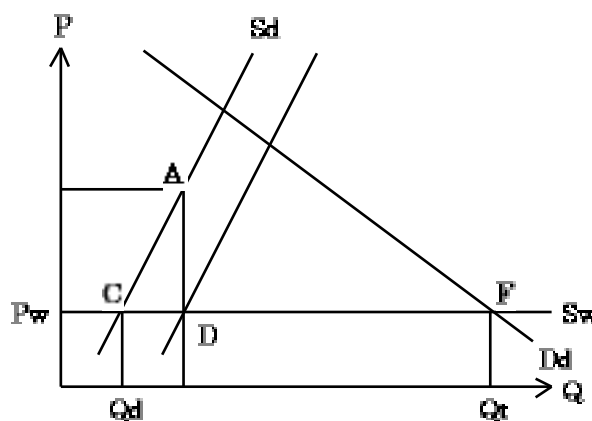
(ii) describe the various losses and transfers of economic welfare, compared to a situation of free trade in Y.

(iii) identify  $S_t$ , the effective total supply curve faced by consumers of X.

**Diagram A**



**Diagram B**



**Diagram C**

