

## ECONOMICS OF EUROPEAN INTEGRATION (EC235)

**Course duration:** 54 hours lecture and class time (Over three weeks)

**LSE Teaching Department:** Department of Economics

**Lead Faculty:** Dr Riccardo Crescenzi and Dr Neil Lee

**Pre-requisites:** Introductory microeconomics and macroeconomics. A refreshment of basic tools will be provided at the beginning of the course. There is no formal prerequisite in mathematics/statistics, but some of the readings will involve empirical studies and elementary statistics would therefore be an advantage.

### Course Objective:

The course covers the main economic aspects of the current development of the European Union and its policies. It will touch on the institutional, political and historical background of European integration, though its main focus is on the economic analysis of the policies and prospects for the European Union. Some recent hot topics in the international policy agenda like rising public debt and the euro crisis will also be covered.

### Course Text:

The core text is R. Baldwin and C. Wyplosz, *The Economics of European Integration* (5<sup>th</sup> edition; McGraw Hill, 2015). There are a number of copies of this book in the library, but we recommend you buy a copy for yourself.

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### Other textbooks:

There are other textbooks available that cover many of the topics and provide a complementary view. Students may wish to consult these as a supplement to Baldwin & Wyplosz. However, you **do not need to buy these books** (there are many copies in the library).

The most relevant of these other texts are:

- A.M. El-Agraa, *The European Union: Economics and Policies*, 9<sup>th</sup> edition, 2011, Cambridge University Press
- P. De Grauwe, *Economics of Monetary Union*, 9<sup>th</sup> edition, 2012, Oxford University Press (useful reading for the 4<sup>th</sup> part of the course).

A series of more dated texts are also useful:

- T. Hitiris, *European Union Economics*, 5<sup>th</sup> edition, 2003, Pearson Education
- M.J. Artis and N. Nixon, *The Economics of the European Union*, 4<sup>th</sup> edition, 2007 Oxford University Press,
- W. Molle, *The Economics of European Integration*, 5<sup>th</sup> edition, 2006, Ashgate.

#### Useful links for material and data about about the EU and the Euro:

- [http://europa.eu/index\\_en.htm](http://europa.eu/index_en.htm)
- <http://www.ecb.int/home/html/index.en.html>
- <http://www.voxeu.org/>
- <http://blogs.lse.ac.uk/euoppblog/about-euopp/>
- <http://blogs.lse.ac.uk/eurocrisispress/>
- New Palgrave Dictionary of Economics Online [see for instance entries by De Grauwe on monetary union, Gaspar and Issing on ECB monetary policy, Pelkmans on the single market, Swinbank on the CAP, etc.] - <https://catalogue.lse.ac.uk/Record/1150977>

We also recommend the use of a DICTIONARY OF ECONOMICS TERMS

- Black, Hashimzade and Myles (2009) *Oxford Dictionary of Economics 3<sup>rd</sup> Edition*, OUP

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This Guide to Economic Indicators is also extremely helpful

- The Economist, *Guide to Economic Indicators*

The course web site is on <http://shortcourses.lse.ac.uk/>

The website has copies of the lecture overheads, exercises, links to readings as well as information on the structure of the course.

#### **Very important note on readings**

Items marked with a \* are required for the exam. Other items are **optional extras** for those who wish to read more widely.

## EC235: Block 1 – Economic Integration, trade and the single market

### Lectures:

1. Introduction to the process of European Integration
2. Preferential trade agreements
3. The Single Market and competition

This first section of the course will cover a brief introduction to the historical, political and institutional foundations of the process of European (economic) Integration. The role of the European Commission, The European Parliament and the Councils of Ministers will be discussed together with a number of stylized facts on the evolution of the EU economy in response to the process of integration. In order to critically analyze these dynamics preferential trade agreements will be covered, considering their impacts on the participating countries (e.g. the EU member states) and on the rest of the world. Finally, the single market and EU policy on state aids and competition will be discussed.

### Key ideas for this block:

- The stages of economic integration – from Customs Union to Common Market to Economic and Monetary Union.
- Key facts and figures on the EU Economy
- The basic economics of trade protection - Costs of protection by tariff; Optimal tariffs.
- The formation of customs unions and the costs/benefits of joining trading blocs such as the EU.
- Competition effects of European integration.
- EU policy on state aids and competition

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### Readings

#### Textbooks:

- \*Baldwin & Wyplosz Chapters 1,2,3, 5 & 6
- El-Agraa Chapters 1,2,3,5, 6 & 7
- Hiritis Chapters 1,2,3,4 & 8

### Academic Papers and Policy Reports:

- Bertrand O. and Ivaldi M.(2007) “Competition Policy: Europe in International Markets” in Sapir A. (eds) (2007) *Fragmented Power: Europe and the Global Economy*[  
[http://idei.fr/doc/wp/2006/european\\_competition.pdf](http://idei.fr/doc/wp/2006/european_competition.pdf) ]

- \*Crescenzi R., Pietrobelli C. and Rabelotti R. (2014) "Innovation Drivers, Value Chains and the Geography of Multinational Corporations in Europe", *Journal of Economic Geography*, 14 (6), 1053-1086.. [ <http://joeg.oxfordjournals.org/content/early/2013/07/12/jeg.lbt018.full> ]
- \*OECD (2012), "A Single Market for Europe", in *OECD Economic Surveys: European Union 2012*, OECD Publishing. [ [http://dx.doi.org/10.1787/eco\\_surveys-eur-2012-4-en](http://dx.doi.org/10.1787/eco_surveys-eur-2012-4-en) ]
- Venables, A.J. (2003) "Winners and losers from regional integration agreements," *Economic Journal*, 113(490), 747-761.

## **EC235: Block 2 – Economic growth and EU Micro-Policies**

### **Lectures:**

1. European integration and its growth effects. Economic growth in the EU
2. Income disparities and the New Economic Geography
3. The EU budget, the Common Agricultural Policy and the EU Regional Policy.

This second block of the course will look at the link between European Integration and Economic Growth at the European, national and regional level. The identification of the drivers of economic growth will be linked to the analysis of the key sectorial (Common Agricultural Policy) and development policies (Rural Development and Regional Policy) funded by the Budget of the European Union. Is the process of integration boosting Economic Growth in the EU? Why are some areas growing more than others? Are EU policies beneficial to economic development in all Member States and their regions? What is the role of political economy dynamics?

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### **Key ideas for this block:**

- The drivers of economic growth
- Growth effects of economic integration.
- Technology, Innovation and Economic Growth in Europe
- Spatial disparities in Economic Development and the New Economic Geography.
- The EU budget and its political economy: structure, revenues and expenditure composition and evolution

The functioning of the Common Agricultural Policy: impacts, imbalances and evolution EU Regional Policy: objectives, functioning and impacts.

## Readings

### Textbooks:

- \*Baldwin & Wyplosz Chapters 7, 9 & 10
- El-Agraa Chapters 8, 9, 19, 20 & 22\*
- Hiritis Chapters 7,9 & 12

### Academic Papers and Policy Reports:

- Barca F. & McCann P. & Rodríguez-Pose A. (2012) "The Case For Regional Development Intervention: Place-Based Versus Place-Neutral Approaches," *Journal of Regional Science*, 52(1), 134-152. [ <http://onlinelibrary.wiley.com/doi/10.1111/j.1467-9787.2011.00756.x/abstract> ]
- Crescenzi R., De Filippis F. & Pierangeli F. (2015) "In tandem for cohesion? Synergies and conflicts between regional and agricultural policies of the European Union" *Regional Studies*, in press. [ <http://www.tandfonline.com/doi/abs/10.1080/00343404.2014.946401?journalCode=cres20#.VMmRTS5SI80> ]
- \*Crescenzi R. & Rodríguez-Pose A. (2012) "Infrastructure and regional growth in the European Union", *Papers in Regional Science*, 91(3), 487–513. [ <http://onlinelibrary.wiley.com/doi/10.1111/j.1435-5957.2012.00439.x/abstract> ]
- Heinemann, F., Mohl, P. and Osterloh, S. (2010) 'Reforming the EU budget: reconciling needs with-political economic constraints' *Journal of European Integration* 32, 59-76 [ <http://dx.doi.org/10.1080/07036330903375149> ]
- \*Jones C. (2005) "Growth and Ideas" in *Handbook of Economic Growth*, Volume 1, Part B, Pages 1063–1111 [ [http://dx.doi.org/10.1016/S1574-0684\(05\)01016-6](http://dx.doi.org/10.1016/S1574-0684(05)01016-6) ]
- \*Puga, D. (2002) European Regional Policies in the light of Recent Location Theories, *Journal of Economic Geography*, 2, 373-406 [ <http://joeg.oxfordjournals.org/content/2/4/373.abstract> ]
- \*Wichern R. (2004) *Economics of the Common Agricultural Policy* Available at [ [http://ec.europa.eu/economy\\_finance/publications/publication630\\_en.pdf](http://ec.europa.eu/economy_finance/publications/publication630_en.pdf) ]

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## EC235: Block 3 – Labour markets, migration and European integration

### Lectures:

1. Labour markets and unemployment
2. European social models and flexicurity
3. Labour migration

Compared to the United States, European labour markets have traditionally been seen as offering relative security of employment at the cost of high levels of unemployment. Yet economic integration, the free movement of labour and the financial crisis have challenged this model. This block will consider key questions

related to the economics of European labour markets. Why do levels of unemployment vary across Europe? Is there a trade-off between labour market flexibility and security? What is the impact of migration on European labour markets?

Key ideas for this block:

- Unemployment and youth unemployment in a European context
- The 'natural rate of unemployment'
- European employment policy
- "Flexicurity" and the trade-offs between labour market flexibility and security
- Minimum wages and unemployment
- Will a European single market entail a 'race to the bottom'? The impact of immigration on European labour markets

## Readings

### Textbooks:

- \*Baldwin, R. & Wyplosz, C. Chapter 8: Economic integration, labour markets and migration
- \*Ardy and El-Agraa (2011) Social policies: The employment dimension. – Chapter 23 in El-Agraa.
- Mayes (2011) 'Factor mobility' – Chapter 8 in El-Agraa.
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### Academic papers and policy reports:

- Dustmann, C. and Frattini, T. (2011) "Immigration: the European experience" *CReAM Discussion Paper* 22/11. Available from: <http://ftp.iza.org/dp6261.pdf>
- Eichhorst, W., Hinte, H. and Rinne, U. (2012) "Youth unemployment in Europe: What to do about it?" *IZA Policy Paper*, 65. <http://repec.iza.org/pp65.pdf>
- Lawrence M. Kahn (2010) "Labour market policy: A comparative view on the costs and benefits of labour market flexibility" *IZA Discussion Paper*, 5100. Available from: <http://ftp.iza.org/dp5100.pdf>
- Thompson, S. (2013) *States of uncertainty: Youth unemployment in Europe*. London: IPPR. Available from: <http://www.ippr.org/publications/states-of-uncertainty-youth-unemployment-in-europe>

## EC235: Block 4 – Monetary Union and economic crisis

1. European Monetary Union: The theory
2. European Monetary Union: The practice
3. Monetary Union, labour markets and economic crisis

European monetary union was seen as a means of deepening the European Union and developing a single currency area to rival the dollar. Theoretical debates about the merits of a single currency union between countries with different fiscal policies have always been controversial. But the debate around the benefits and costs of monetary union has been particularly fierce since the financial crisis of 2007 became a Euro crisis. This block will consider both key theoretical and practical questions of monetary integration. What are the theoretical arguments for a single currency? What will the impact of monetary union be on trade? What is the impact of a loss of monetary autonomy on national economies? And which countries will gain or lose?

The final session will conclude by bringing together material from the final two blocks and considering the impact of the financial crisis on different European countries, regions and groups of workers. This will investigate questions such as which countries have been impacted by the financial and Euro crisis? What has the effect been on countries such as Ireland, Greece and Spain which are in the single currency? Why has youth unemployment increased significantly in some countries more than others?

Key ideas for this block:

- 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 history of monetary union
- The convergence criteria
- The European monetary system
- Crisis in Ireland, Greece and Spain
- Regional impact of the recession
- Impact of recession on different groups of workers

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## Readings

### Textbooks:

- Al-Agrra: Chapter 10: The theory of monetary integration
- \*Baldwin & Wyplosz, chapter 16: The European Monetary Union
- \*Baldwin & Wyplosz, chapter 17: Fiscal policy and the stability pact
- Baldwin & Wyplosz, chapter 19: The Eurozone in crisis

### Academic papers and policy reports:

- Cavallo, A., Neiman, B. and Rigobon, R. (2012) "Currency unions, product introductions and the real exchange rate" NBER Working Paper 18563 (<http://www.nber.org/papers/w18563.pdf>)
- Frankel, J. (2008) "The Estimated Effects of the Euro on Trade" NBER Working Paper 14542 (<http://www.nber.org/papers/w14542> )
- Mundell, R. (1961) 'A Theory of Optimum Currency Areas', *American Economic Review*.
- Rose, A (2000) 'One Money, One Market: Estimating the Effect of Common Currencies on Trade', *Economic Policy*, 30, 7-45.

You may also find one of the following books on the crisis interesting reading, although this is not necessary for the examination.

- Peet, J. and La Guardia, A. (2014) *Unhappy Union: How the euro crisis – and Europe – can be fixed*. London: The Economist.
- Legrain, P. (2014) *European Spring: Why our economies and politics are in a mess – and how to put them right*. London: CB Books.

This free ebook by the Greek Finance Minister (for now) might also be informative.

- Varoufakis, Y. (2015) *Europe after the Minotaur: Greece and the Future of the Global Economy*. Available from: <http://zedbooks.co.uk/ebooks/&bid=9781783606085>



**Credit Transfer:** If you are hoping to earn credit by taking this course, please ensure that you confirm it is eligible for credit transfer well in advance of the start date. Please discuss this directly with your home institution or Study Abroad Advisor.

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