

Europe's Economy: World's Best Performer?

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Time Slot:	Tuesdays, 1:30 p.m.
Language of Instruction:	English
Contact Hours:	45
ECTS Credits:	6

Course Description

The European Communities were conceived as a union of democratic nations shaping the economic and social model of the world. In the last 60 years the EU has grown big; at the same time economic and income disparities nurtured social grievances and political disappointments. With Brexit, the enlargement process went into reverse, and in a changing global economy Europeans wonder whether the EU can successfully compete with the US and China.

The euro, Europe's single currency, was thought to speed up economic convergence. Yet lingering disparities (e.g. diverging inflation rates) drove a wedge between the "frugal" North and the "deficit-spending-prone" South. Is the Eurozone going to crash due to inability to handle the design flaws of the common currency?

With war aggressor Russia as major energy supplier, EU energy independence is high on the agenda. Would a shift towards increased use of renewables secure Europe's energy future? And is the newly introduced "EU Green Deal" the right response to the global warming and climate change?

Lastly, a look at Europe's social model shall tell us how free markets and social responsibility are combined for more inclusion and less income disparities within the EU member states.

Learning Objectives

This course aims at covering both the institutional framework of the European Union and the economics of European integration. They are presented in an international (global) context and shall introduce the students to an array of policy issues relevant to integration as well as to the basic theory in order to ensure the course is self-contained.

Student Profile

Should be in their fourth semester of college/university education or beyond.

Assignments and Grading

Midterm Exam: 350 Points

Final Exam: 350 Points

Active participation in class: 150 Points

Presentation in class: 100 Points

Independent Project Report: 50 Points

Completion of the Midterm Exam as well as the Final Exam is needed for a grade.

FUB Grade	Points of 1,000
1.0	980-1,000
1.3	950-979
1.7	900-949
2.0	850-899
2.3	800-849
2.7	750-799
3.0	700-749
3.3	650-699
3.7	600-649
4.0	500-599
5.0	< 500

Attendance

Attendance in class is mandatory. We also expect you to be punctual out of respect to both your instructor and your fellow students. If you cannot attend class because you are ill, please report sick to the FU-BEST office (info@fubest.fu-berlin.de) and to your instructor by e-mail before class.

Absences are **excused** in case of **illness**; however, for the fifth sick day and every other sick day after that (consecutive or cumulative, counted not per individual course but for the program overall), you will need to turn in a doctor's notice ("Attest" in German) to the FU-BEST office in order for them to count as excused, too.

If you miss an exam due to an excused absence, your instructor and the FU-BEST team will arrange a make-up exam for you; you may also be entitled to a term paper deadline extension. If you, however, do not fulfill all course requirements needed for a grade by the (later) date determined by the program, passing the course is no longer possible.

Please also note that if you miss more than half of a course's sessions (even if due to excused absence), passing the course is no longer possible.

Personal travel and visits by relatives or friends are **not** accepted as reasons for absence (i.e., absences for these reasons always count as unexcused).

Regarding **unexcused** absences, please note the following:

- Any unexcused absence has consequences for at least the participation portion of the grade.
- Two unexcused absences lead to a formal warning and a lowering of the course grade by a fraction.
- Three unexcused absences will result in an "F" (5.0) on the transcript.

An absence for more than half of a particular day's session will be considered an absence for that day.

Literature

Richard Baldwin and Charles Wyplosz, The Economics of European Integration, Mcgraw-Hill Higher Education, 6th edition, 2020.

Digitized readings posted on the online learning platform Blackboard.

Course Schedule

Calendar	Topics, Readings, etc.
Session 1	<p>Topic: The European Union: Emergence, Treaties, and Institutions.</p> <p>Introduction to the course, getting-to-know each other, Q&A.</p> <p>Readings</p> <ul style="list-style-type: none"> • Baldwin and Wyplosz, Chapters 1.1 - 1.2; 2.1; 2.4. • Europe in 12 Lessons, Part 1: Why the EU?; Part 2: Twelve historic steps; Part 4: How does the EU work?
Session 2	<p>Topic: The EU as a major political and economic power</p> <p>Part 1: Long-term European and international economic trends Part 2: The Budget of the European Union</p> <p>Readings</p> <ul style="list-style-type: none"> • The EU in the World, Chapters 1, 4 & 7 • Baldwin and Wyplosz, Chapter 2.7: The Budget
Session 3	<p>Topic: The EU in the World</p> <p>Part 1: Europe coping with globalization. Winners and losers Part 2: Europe's common agricultural policy. The global impact of EU CAP</p> <p>Readings</p> <ul style="list-style-type: none"> • Globalization & Trade Explained, bullet points 2 & 3. • The EU in the World, Chapter 8: International Trade. • "Getting over Globalization", by the Credit Suisse Research Institute (CSRI). • Baldwin and Wyplosz, Chapter 9. • The EU in the World, Chapter 14.
Session 4	<p>Topic: The global limits of enlargement of the EU (Part 1 – 3)</p> <p>Can the EU expand indefinitely? Understanding the driving economic forces and economic limits of expansion. Modeling the domestic limits of enlargement.</p> <p><i>Brainstorming: Economic and political costs and benefits of Ukraine joining the EU. Assessment of her prospect of membership</i></p> <p>Readings</p> <ul style="list-style-type: none"> • Baldwin and Wyplosz, Chapter 7.2. • The domestic limits of EU extension: von Thunen's Concentric Rings Model. • Von Thunen model explained. • Von Thunen Model in pictures.

Session 5	<p>Topic: The global limits of enlargement of the EU (Part 4)</p> <p>Europe in a world of hierarchical central places. Interaction with other players of the same order. Modeling the equilibrium size of the EU.</p> <p><i>Brainstorming: Economic and political costs and benefits of Turkey joining the EU. Assessment of the prospect of further enlargement rounds</i></p> <p>Readings</p> <ul style="list-style-type: none"> • External limits of EU Enlargement: Overview of Walter Christaller's "Central Places Theory". • Europe in 12 Lessons, Chapter 3: Enlarging the EU and getting on with the neighbours.
Session 6	MIDTERM EXAM
Session 7	<p>Topic: EU as a major trading partner</p> <p>Patterns of specialization, international division of labor, and Europe's comparative advantage. How does a capital-abundant EU interact with other parts of the world? Why is trade liberalization beneficial to more welfare in EU? Are high labor costs detrimental to the global competitiveness of Europe?</p> <p><i>Exercise on International Trade: Opportunity Costs Considerations</i></p> <p>Readings</p> <ul style="list-style-type: none"> • Baldwin and Wyplosz, Chapter 10.1-10.2. • Baldwin and Wyplosz, Chapter 12.1. • Globalization & Trade Explained, bullet point 1.
Session 8	<p>Topic: The common European currency – benefits and flaws</p> <p>Inception of EMU – external and domestic motives. EMU falling short of being an Optimum Currency Area: inflexible labor market (elasticity of wages, cross-border movement of labor); lack of fiscal federalism, limited EU budget; other reasons.</p> <p><i>Exercise: Unholy Trinity</i></p> <p>Readings</p> <ul style="list-style-type: none"> • Baldwin and Wyplosz, Chapter 13.3. • Baldwin and Wyplosz, Chapters 15.2-15.7. • Baldwin and Wyplosz, Chapters 16.2, 18.6. • Europe in 12 Lessons, Chapter 7. • The Euro Paradox, Part Miguel Otero Iglesias.
Session 9	<p>Topic: The exchange rate of the Euro</p> <p>Relative prices in the Eurozone and the demand for euros. Interest rate and exchange rate. The euro exchange rate in the short run: appreciation/depreciation of the euro. The euro exchange rate in the long run: purchasing power parity EU – rest of the world; how does the Law of One Price fit in; nominal and real exchange rate of the euro – what evidence?</p> <p><i>Exercise: Poland's and Denmark's fiscal and monetary policy</i></p> <p>Readings</p> <ul style="list-style-type: none"> • Baldwin and Wyplosz, Chapters 13.2; 13.4, 13.5. • Overborrowing management (German debt brake).

Session 10	<p>Topic: Currency Union Governance. How to Achieve Equilibrium</p> <p>The Eurozone suffered a severe crisis. What were the reasons? Currency unions' design requirements: theory and policy.</p> <p><i>Brainstorming: How can EMU member states overcome a crisis? Rebalancing within a currency union.</i></p> <p>Readings</p> <ul style="list-style-type: none"> • Baldwin and Wyplosz, Chapters 19.2, 19.3, 19.6. • Will lavish spending save the Euro? • The Euro Paradox, Part Ognian Hishow
Session 11	<p>Topic: EU and the energy, and climate, challenge</p> <p>Energy partners and geopolitics of fuel supply. The EU as a front-runner for renewables. Wind and solar energy, and bio-fuel. Can the EU turn the world green?</p> <p><i>Exercise: The EU Emissions Trading System</i></p> <p>Readings</p> <ul style="list-style-type: none"> • EU Climate & Energy Strategy. • EU Green Deal. • If no climate action? • EU in the world, Part 12 & 13. • The EU ETS. • EU ETS numerical examples.
Session 12	<p>Topic: The Social Model of the EU</p> <p>Part 1: The social model of the EU – world's best performer Part 2: The EU social model under pressure – what does globalization change?</p> <p>Income redistribution is brought about by trade and technology. What can we expect in the medium term? Pros and cons of globalization followed by discussion of the ideas.</p> <p>Readings</p> <ul style="list-style-type: none"> • Baldwin and Wyplosz, Chapter 8.1, 8.4, 8.5. • EU Social Models. • Globalization Facilitated a Capital-Labor Income Shift.
Session 13	FINAL EXAM