

## FU/BEST Program

**Name:** Dr. Ognian Hishow

**Email address:** fubest@fu-berlin.de

**Course title:** Europe in the Global Economy

**Course number:** FU-BEST 24

**Language of instruction:** English

**Contact hours:** 45

**ECTS-Credits:** 5    **U.S. semester credits:** 3

### Course description

The European Communities were conceived as a union of democratic nations shaping the economic and social model of the world. Is the permanent enlargement process that made the EU big paying off? In a changing global economy, what is Europe's comparative advantage?

"One market – one money" was what Europeans believed in. In a crisis not coming to an end the common currency is seen more and more as liability. Is an ill-designed Euro going to blow up the Eurozone?

With authoritarian Russia as major energy partner EU energy independence is high on the agenda. Would a shift towards increased use of renewable sources of energy secure Europe's energy supply? Moreover, how is the EU handling global warming and climate change?

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

### Student profile

Second-semester sophomore or above

### Prerequisites

None

### Course Requirements

Midterm exam: 25%

Term-Paper: 25%

Final exam: 30%

Attendance and participation: 20% (Independent Project Report included)

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### Literature:

Richard Baldwin and Charles Wyplosz, The Economics of European Integration, McGraw-Hill Higher Education, 5<sup>th</sup> edition, 2015

Photocopied course reader

### Course schedule

Sessions	Topics, Readings, etc.
<b>Session 1</b>	<p><b>Topic: Introduction</b> to the course, getting-to-know each other, Q&amp;A. Lecture: “Overview of the EU28: Emergence, Treaties, Institutions” - power-point presentation by instructor and discussion.</p> <p><b>Reading:</b> Richard Baldwin and Charles Wyplosz, Chapters 1.1 through 1.5; 2.1; 2.4</p>
<b>Session 2</b>	<p><b>Topic: The EU as a global political and economic power</b> Part one: Long-term European and international economic trends Part two: The Budget of the European Union</p> <p><b>Reading:</b></p> <ol style="list-style-type: none"> <li>1. Key Facts and Figures about Europe, in Reader;</li> <li>2. Richard Baldwin &amp; Charles Wyplosz, Chapter 2.7.</li> </ol>
<b>Session 3</b>	<p><b>Topic: EU in the World</b> Part one: Europe coping with globalization. Winners and losers Part two: Europe’s common agricultural policy. The global impact of EU CAP</p> <p><b>Reading:</b> 1. Monopolistic Competition and Trade, in: What is International Economics about? pp. 125-130, <u>in Reader</u>; 2. Richard Baldwin &amp; Charles Wyplosz, Chapter 9; 3. Credit Suisse, Is globalization coming to an end? New research signals a possible shift away from globalization to a multi-polar world, <u>in Reader</u></p>
<b>Session 4</b>	<p><b>Topic: The global limits of enlargement of the EU (Part 1 – 3)</b> Can the EU expand indefinitely? Driving economic forces and economic limits of expansion. Modeling the optimal size of the EU. Europe in a world of hierarchical central places. Interaction with other players of the same order</p> <p><b>Reading:</b> 1. Richard Baldwin &amp; Charles Wyplosz, Chapter 7.2. 2. On the domestic limits of EU extension: Overview of Johann-Heinrich von Thünen’s “Balancing Land-Use</p>

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	Allocation with Transport Cost”, <u>in Reader</u> .
<b>Session 5</b>	<p><b>Topic: The global limits of enlargement of the EU (Part 4)</b></p> <p><b>Brainstorming:</b> “Admission of Turkey after the refugee deal?” Assessment of the prospect of further enlargement rounds</p> <p><b>Reading:</b> On the global limits of the EU’s enlargement: Overview of Walter Christaller’s “Central Places Theory”, <u>in Reader</u></p>
<b>Session 6</b>	<b>Midterm Exam</b>
<b>Session 7</b>	<p><b>Topic: EU as a major trading partner</b> 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? Does trade liberalization increase the level of welfare in EU? Why does intra-industrial (i.e., within manufacturing) trade matter for the global competitiveness of Europe?</p> <p><b>Brainstorming:</b> <i>Will China take over global manufacturing?</i></p> <p><b>Reading:</b></p> <ol style="list-style-type: none"> <li>1. Richard Baldwin &amp; Charles Wyplosz, Chapter 12.1;</li> <li>2. Labor Productivity and Comparative Advantage: The Ricardian Model, <u>in Reader</u>, pp. 24-39;</li> <li>3. What is International Economics about? <u>In Reader</u></li> <li>4. Resources and Trade: The Heckscher-Ohlin model, <u>in Reader</u>, pp. 80-97</li> </ol>
<b>Session 8</b>	<p><b>Topic: The common European currency in the world</b> 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><b>Reading:</b> 1. Richard Baldwin &amp; Charles Wyplosz, Chapter 13.3 2. Richard Baldwin &amp; Charles Wyplosz, Chapters 15.2, 15.3, 15.4; 15.6; 15.8 3. Richard Baldwin &amp; Charles Wyplosz, Chapters 16.2; 18.6 Optional: Richard Baldwin &amp; Charles Wyplosz, Chapter 18.5</p>
<b>Session 9</b>	<p><b>Topic: The exchange rate of the €</b> Relative prices in the Eurozone and the demand for €. Interest rate and exchange rate. The euro exchange rate in the short run:</p>

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	<p>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><b>Brainstorming:</b> <i>Fiscal and monetary policy under various exchange rate regimes</i></p> <p><b>Reading:</b> 1. Richard Baldwin &amp; Charles Wyplosz, Chapters 13.2.1; 13.2.2; 13.5.1; 13.5.2; 13.6 Beyond PPP: A General Model of Long-Run Exchange Rates, p. 401-407, <u>in Reader</u> Aggregate Demand in an Open Economy, p.312-326, <u>in Reader</u>.</p>
<p><b>Session 10</b></p>	<p><b>Topic: Eurozone crisis: reasons, repercussions, governance (I)</b> Currently, the Eurozone is in distress. What caused the various crises: financial, economic, debt crisis? The EMU model and its deficiencies – theory and policy.</p> <p><b>Brainstorming:</b> <i>Eurozone crisis, and crisis response. Is a bail-out of crisis ridden member states the cure-all drug?</i></p> <p><b>Reading:</b> 1. Richard Baldwin &amp; Charles Wyplosz, Chapters 19.2; 19.3; 19.6. 2. Ognian Hishow, EMU crisis: switching from austerity to lavish spending? <u>In Reader</u></p> <p><i>Aficionado's wisdom (optional): How to reduce public debt?</i> - Ognian Hishow, Curing Europe's addiction to borrowing: Germany's debt brake as a panacea? <u>In Reader</u></p>
<p><b>Session 11</b></p>	<p><b>Topic: EU and the energy, and climate, challenge</b> 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><b>Brainstorming:</b> <i>Why is Europe greener than the US?</i></p> <p><b>Reading:</b> 1. EU Energy, <u>in Reader</u>. 2. The EU ETS, <u>in Reader</u>. 3. How does the ETS work? <u>In Reader</u>. 4. Climate: Paper assessing the two-degree target: The End of Climate Policy, by Oliver Geden, <u>in Reader</u>. 5. Recommended: Homepage of EU COM/DG Energy and Transport: <a href="http://ec.europa.eu/energy/index_en.htm">http://ec.europa.eu/energy/index_en.htm</a> , and homepage of DG Climate Action: <a href="http://ec.europa.eu/dgs/clima/mission/index_en.htm">http://ec.europa.eu/dgs/clima/mission/index_en.htm</a></p>
<p><b>Session 12</b></p>	<p><b>Topic: The Social Model of the EU</b></p>

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	<p>Lecture part one: <b>The social model of the EU</b> – world’s best performer          Why is Europe’s income distribution more equal than America’s?  <b>Brainstorming:</b> <i>Working poor (in US) vs. jobless on benefits (in EU)?</i></p> <p>Lecture part two: <b>The EU social model under pressure</b> – what does globalization change?          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  <u>Wrap-up brainstorming</u> (t.b.c.): The EU/EMU in the world 30 years from now: economy, currency, energy, neighborhood, ageing society, social model, international rank. (Students prepare in groups of 4-5 an outlook/forecast on 2040).</p> <p><b>Reading:</b> 1. Richard Baldwin &amp; Charles Wyplosz, Chapter 8.1; 8.5.          2. Andre Sapir, Globalisation and the Reform of European Social Models. <u>In Reader</u>;          2. Ognian Hishow, “The Political Economy of Labor-Capital Income Imbalances. European Solutions”, <u>in Reader</u>.</p>
<b>Session 13</b>	<b>Final Exam</b>