1. The surge inflation in the last year has been a major concern for policy makers in the euro area and in the rest of the world.

    a) What have been the drivers of inflation and how do they relate with the expected path of prices in the near future?

Increases in the price of energy and food products – higher pressures on prices.

Disruption in the supply chain of intermediate goods – higher pressures on prices

Expansionary stance of fiscal policies (though some expenditure policies were targeted at limiting price hikes) – higher pressures on prices.

Tight labour market and higher nominal wage updates - higher pressures on prices

    b) In this context, and in connection with the mandate of the ECB, how has monetary policy been conducted in the euro and what are its risks?

Contractionary monetary policy, and management of expectations.

Risks of sudden drop in demand (recession)

More nonperforming loans and disarray in financial markets (drop in prices of assets) with financial stability concerns

    c) What are challenges to inflation reduction posed by the stance of national fiscal policies?

The stance has been expansionary, which increases aggregate demand and pushes prices up. Some of this expenditure has been used to subsidize goods whose prices increased the most (energy), thus limiting inflation.

Wage updates in civil servants' wages set the norm for private sector, thus impacting the inflation-wage loop.

2. The war in Ukraine has relaunched the debate about the enlargement of the EU, just after the first EU reduction.
    a) What are the advantages and disadvantages of enlargements both for incumbent and entering countries?

Incumbents; advantages: larger internal market, more security; disadvantages: more expensive and harder to reach approval in EU institutions.

Entrants; advantages: access to funds, faster structural reforms, more trade; disadvantages: drop in sovereignty in some areas.

    b) How does the enlargement of the euro area differ from the enlargement of the EU?

The accession to the euro area is optional (EU with variable geometry) and requires fulfillment of nominal convergence criteria.

EMU accession is more demanding as countries drop the autonomous monetary policy, thus need to care deeply about competitiveness.

c) What were the lessons learned from the Brexit?

International trade is hurt; thus, GDP growth is lower, immigration flows do not slow down and the world economy still put constraints on policy decisions.

3. The so-called open strategic autonomy is the EU response to changes in the world order and to the US and Chinese industrial policy actions.
   a) What has been the role of international trade in the European integration project?

It has always played a central role of the process as the EEC was originally a customs union.

There is a single/common trade policy.

b) What are the challenges posed by industrial policies to the EU single market?

Industrial policies jeopardize the competitive set up in the single market (no stare aid principle).

There is strong potential for waste of scarce resources in sectors where there is no comparative advantage.

Industrial policies need to be financed and represent a future burden.

c) Do past developments and prospects in the nature and organization of international trade put limit the scope for protectionist policies?

Presumably yes.

The GVCs have strongly increased interdependence and reshoring is costly.

Firms and consumers have learned that there are gains.

Further services trade will exist, and it is less prone to tariffs (but more to non-tariff barriers).

4. There are institutional and economic policy areas whose integration still falls short of what would be necessary for the smooth functioning of the European monetary union.
   a) What are the institutional and economic policy areas that require further integration?

Banking Union, Fiscal federation, capital markets, crisis solving mechanisms, easier decision taking procedures.

b) What are the consequences of the absence of progress in these areas?

Higher risk (baking and financial) and higher interest rates (lower investment), lower synchronization of cycles and harder to manage a common monetary policy.

c) What are the obstacles in the way?

Political economy issues (national agendas and lack of solidarity). Risk sharing versus risk reduction (some countries prioritize risk reduction ,but risk sharing is necessary for the latter).