

Seminar in European Economics

Group assignment

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Academic year 2024/2025
2nd Semester

Moodle enrolment key: EES-2025-2

The recent [Draghi \(2024\) report](#) has relaunched the debate about competitiveness in the EU. The economic performance of the EU has been disappointing when compared with that of the US or China, and it is urgent that steps are taken in order support economic growth going forward. Boosting the competitiveness of the EU economy is a very complex task, which involves multiple dimensions. Amongst other ideas, the report highlights the need for higher investment.

The assignment invites teams (3 to 5 students) **to measure the amount of investment needed in the different countries and sectors to double gross value added (GVA) per worker in the EU**, considering everything else constant. This simulation exercise is highly stylized, and it is based on data available online. Although stylized, the exercise is useful because it provides a magnitude for the investments required in the future. In addition, teams should discuss the problems underlying the materialization of high investment in EU member countries, the most productive types of investment, and propose ways forward.

As for the methodology used in the simulation exercise, students should adopt a growth accounting perspective. The investment level feeds the capital stock available in the Cobb-Douglas production function, which, together with employment, total factor productivity and the fixed parameters of the function, generates GVA. The simulation should be performed for each individual country separately and a further breakdown along sectors is an option.

A non-exhaustive list of tasks includes:

- Carefully read the literature on EU competitiveness and investment.
- Collect information necessary for the growth accounting exercise.

https://economy-finance.ec.europa.eu/economic-research-and-databases/economic-databases/ameco-database_en

https://economy-finance.ec.europa.eu/economic-research-and-databases/economic-databases/eu-klems-capital-labour-energy-materials-and-service_en

- c. Prepare the stylized growth accounting model in excel, using the standard Cobb-Douglas production function.
- d. Compute the necessary level of investment to double GVA per worker, for each country and (optionally) for each sector.
- e. Analyze and critically comment on your results.
- f. Discuss the feasibility of the implementation of your findings and propose solutions.

In a nutshell the assignment has two blocks: **i) compute the level of investment needed to double GVA per worker (labour productivity) in the EU countries-sectors; ii) discuss the difficulties in the materialization of higher investment in the EU and propose ways forward.**

Important dates:

21st of February: submit the group composition (3 to 5 students) on Moodle

29th of April: submit the assignment (maximum 7 pages) on Moodle

Suggested readings:

<https://cepr.org/voxeu/columns/draghis-real-message-european-competition-enforcement-not-delivering-innovation-and>

<https://www.delorscentre.eu/en/publications/turning-challenges-of-eu-competitiveness-into-opportunities>

https://investeu.europa.eu/index_en

<https://www.bruegel.org/report/accelerating-strategic-investment-european-union-beyond-2026>

https://www.nber.org/system/files/working_papers/w6654/w6654.pdf

<https://www.karlwhelan.com/Macro2/slides-8.pdf>

<https://www.consilium.europa.eu/media/ny3j24sm/much-more-than-a-market-report-by-enrico-letta.pdf>