

SEMINAR IN EUROPEAN ECONOMICS

INTRODUCTION

PRACTICAL CLASSES

2024-2025 S2

PRACTICAL CLASSES

Complementary to the seminar lectures: greater in-depth coverage of specific topics of the outline of the course.

In order to reflect the applied nature of the course, the approach followed during classes will rely as much as possible on both a **factual and theoretical analysis of the causes and implications** of the topic under discussion.

Students are **encouraged to actively participate in class discussions**.

TIMELINE

Program Topic	Practical class
1. Current challenges facing the European economy	Classes 1&2 Course presentation EU Challenges: An Overview
2. History, institutions and the decision process in the EU	Class 3 European Integration Optimal Currency Areas
3. European policies	Class 4 The sovereign debt crisis and financial integration: challenges for monetary policy
	Class 5 The Stability and Growth Pact: recent reforms in fiscal rules
	Class 6 Other main reforms: crisis prevention and resolution: a) Macroeconomic imbalances procedure b) The European Stability Mechanism
	Class 7 Challenges for financial stability: the role of the Banking union
4. Europe facing globalization	Class 8 Globalization and trade patterns
5. The Portuguese experience	Class 9 The Experience of the Portuguese Economy with the Euro
	Class 10 Revisions and Exam Preparation

COURSE EVALUATION

- **Final exam** (50%) – minimum grade of 8
- **Term paper** (20%)
- **Mid-term** (15%) – optional; if not taken, or grade is lower than exam, then the exam weights 65%
- **Three quizzes** (15% - 5% each) – on Moodle; if each quiz grade is lower than that of the final exam, its weight is passed for the latter

IMPORTANT DATES:

- **21st February:** Deadline to submit group composition on Moodle
- **TBD:** Class dedicated to questions and answers about the term paper
- **6th March:** First quiz
- **1st April:** Midterm (takes place in class)
- **15th April:** Second quiz
- **29th April (11:59pm):** Term paper submission deadline
- **8th May:** Third quiz

TERM PAPERS

The assignment aims at initiating students in economic research on a topic relevant for the European Union. Students are encouraged to take a critical and quantified view of the topic. The assignment should be concise (max. 7 pages). The criteria used to grade the assignments are the rigor of the analysis, originality and relevance of conclusions.

Instructions:

Group size: 3-5 students

Paper size: max. 7 pages (excluding cover, bibliography and annexes)

Font: Times New Roman

Font size: 12

Paragraph space: 1.0

No assignments will be accepted after the deadline.

SEMINAR IN EUROPEAN ECONOMICS

EU CHALLENGES: AN OVERVIEW

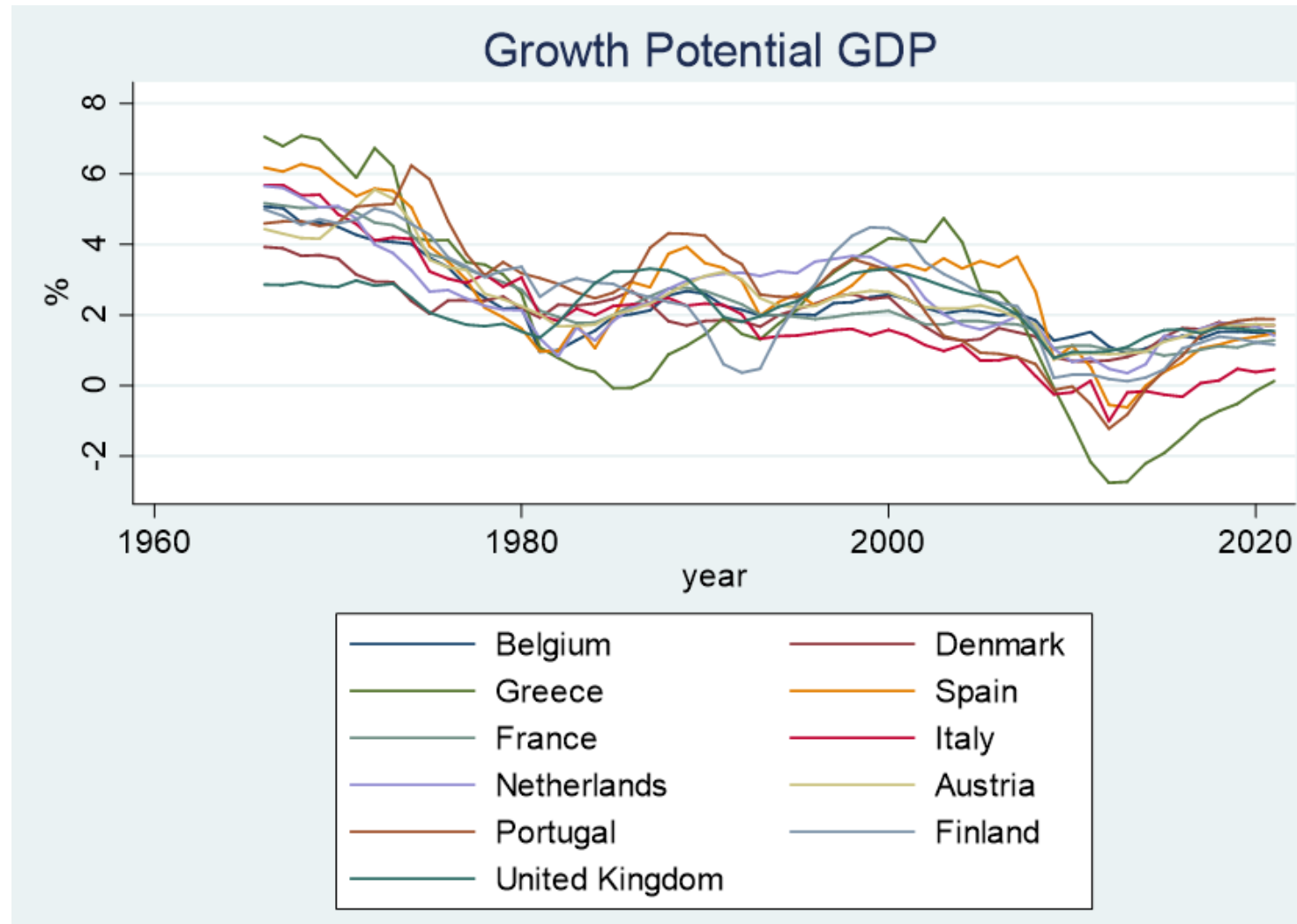
PRACTICAL CLASSES 1

2024-2025 S2

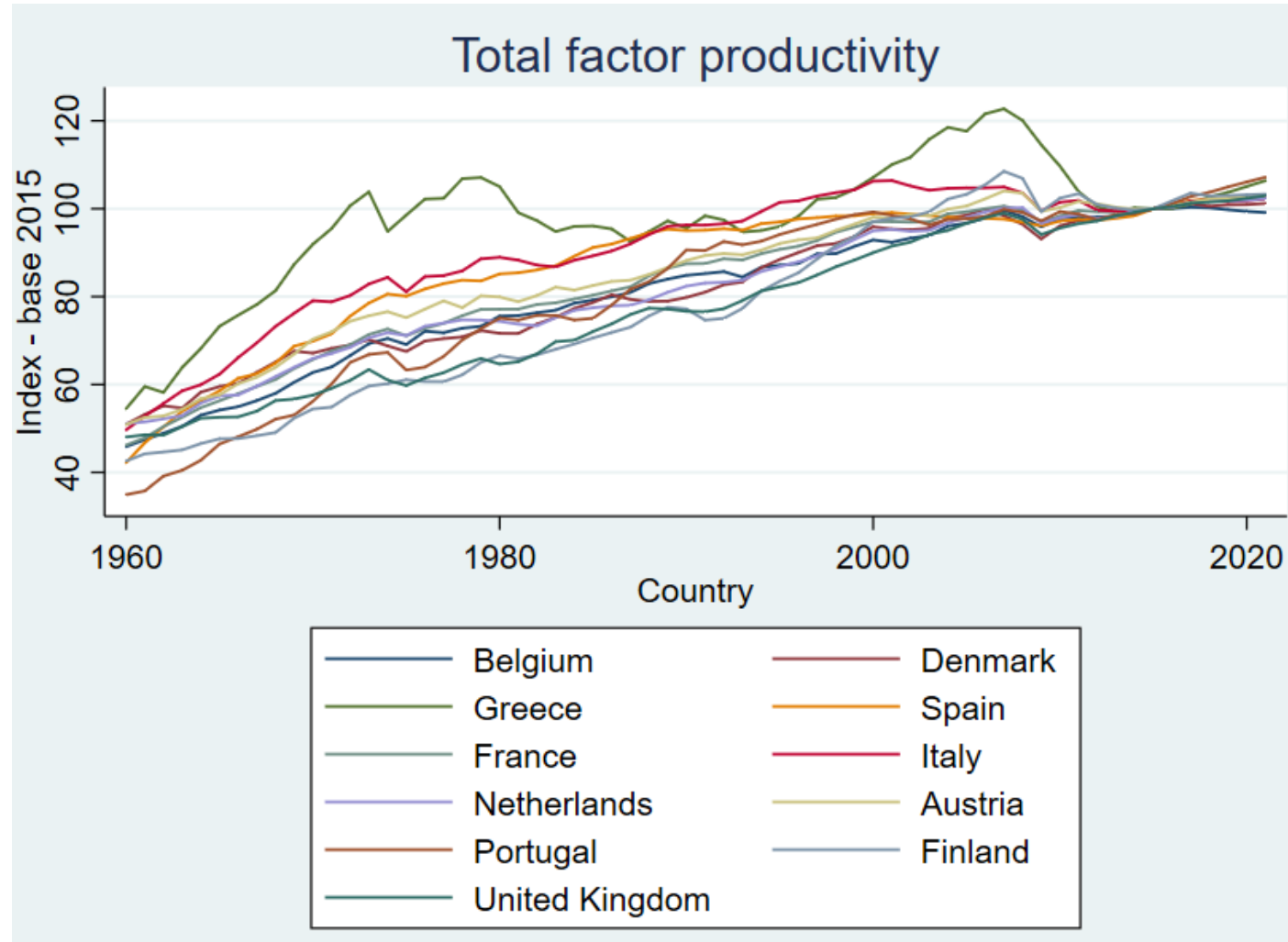
CHALLENGES

- Low productivity growth and competitiveness?
- Brexit
- Migration, refugees
- Lack of cohesion in the EU
- Financial stability: fragilities and imbalances that caused the EU sovereign debt crisis are still present
- COVID-19 Crisis
- Inflation and energy transition
- Geopolitical tensions

- Low productivity growth and competitiveness?



- Low productivity growth and competitiveness?



- **Brexit - Questions from previous exams/midterms**

17th January 2017

4) The diplomatic and political relations between European countries, and also with foreign powers, have always strongly shaped the progress of the EU integration project.

a) To what extent is Brexit understandable in light of episodes that took place since the fifties?

30% The UK has always been a reluctant EU member. It did not take part of the group of founding countries, sponsored the alternative project of the European Free Trade Association, it has asked for specific compensation on losses on Commonwealth trade and it did not participate in the monetary union. Therefore, although UK was not hit too severely by the euro crisis, Brexit does not come as a full surprise in historical terms.

https://www.youtube.com/watch?v=tVt_1ByddUQ

- **Migration**

Paper	Result
“The impact of the Mariel Boatlift on the Miami labour market” (1990)	Zero impact on wages in the Miami Labour market
“Is the new immigration really so bad?” (2005)	No impacts on the the wages of low skilled workers, but fall in the wages off high skilled workers
“The Effect of Immigration along the Distribution of Wages” (2013)	Negative effects below 20th percentile and positive above and on average.
“Labor Supply Shocks, Native Wages, and the Adjustment of Local Employment” (2016)	Negative effects on wages and labour supply, the first particularly to younger workers and the latter to older ones

- **Migration - Questions from previous exams/midterms**

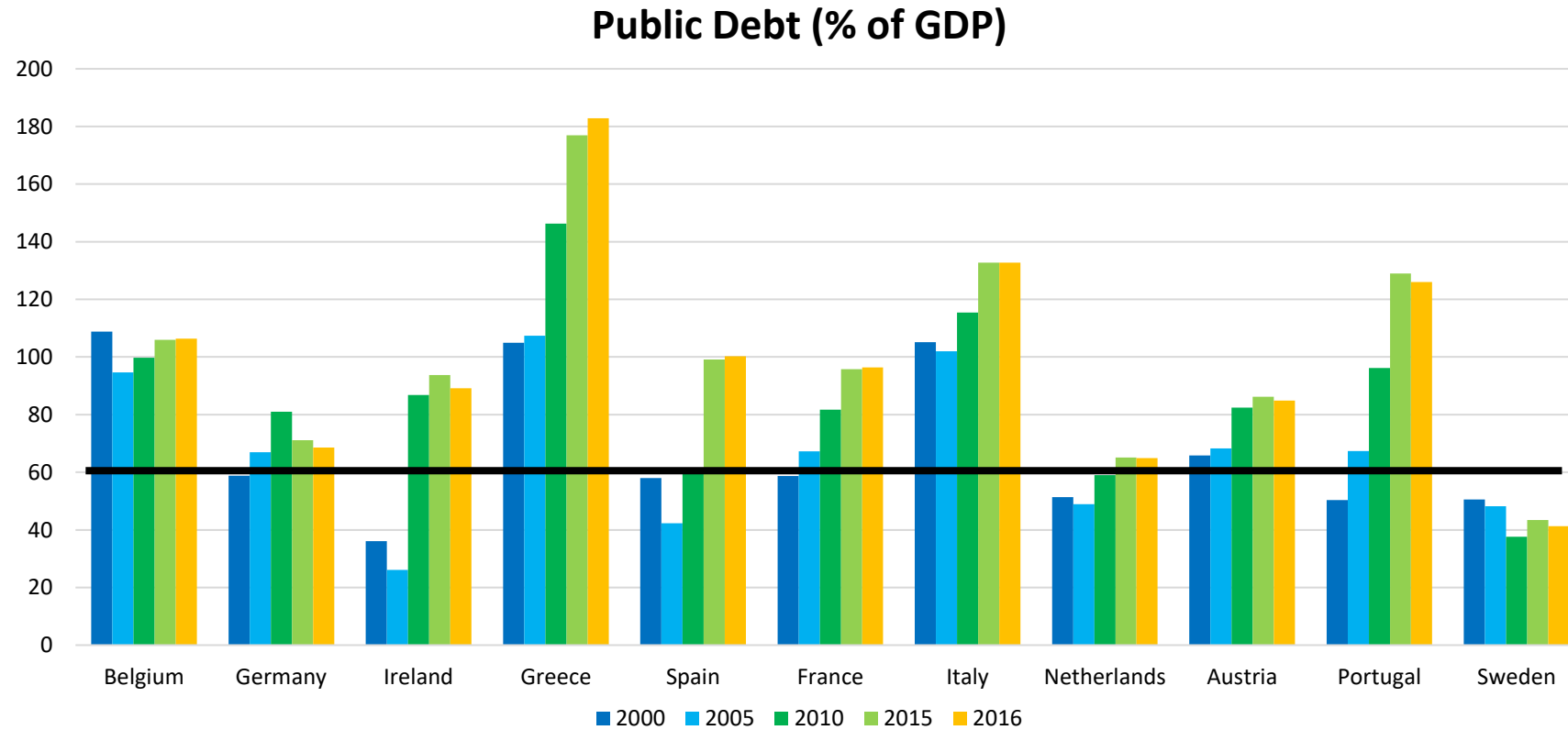
12th June 2018

3) Developments in the labour market and migration have strong social consequences and have a potential impact on convergence between countries. Therefore, they should be at the core of EU policy-makers' concerns.

a) What is the role of labour markets a monetary union and explain why there is a potential impact on convergence?

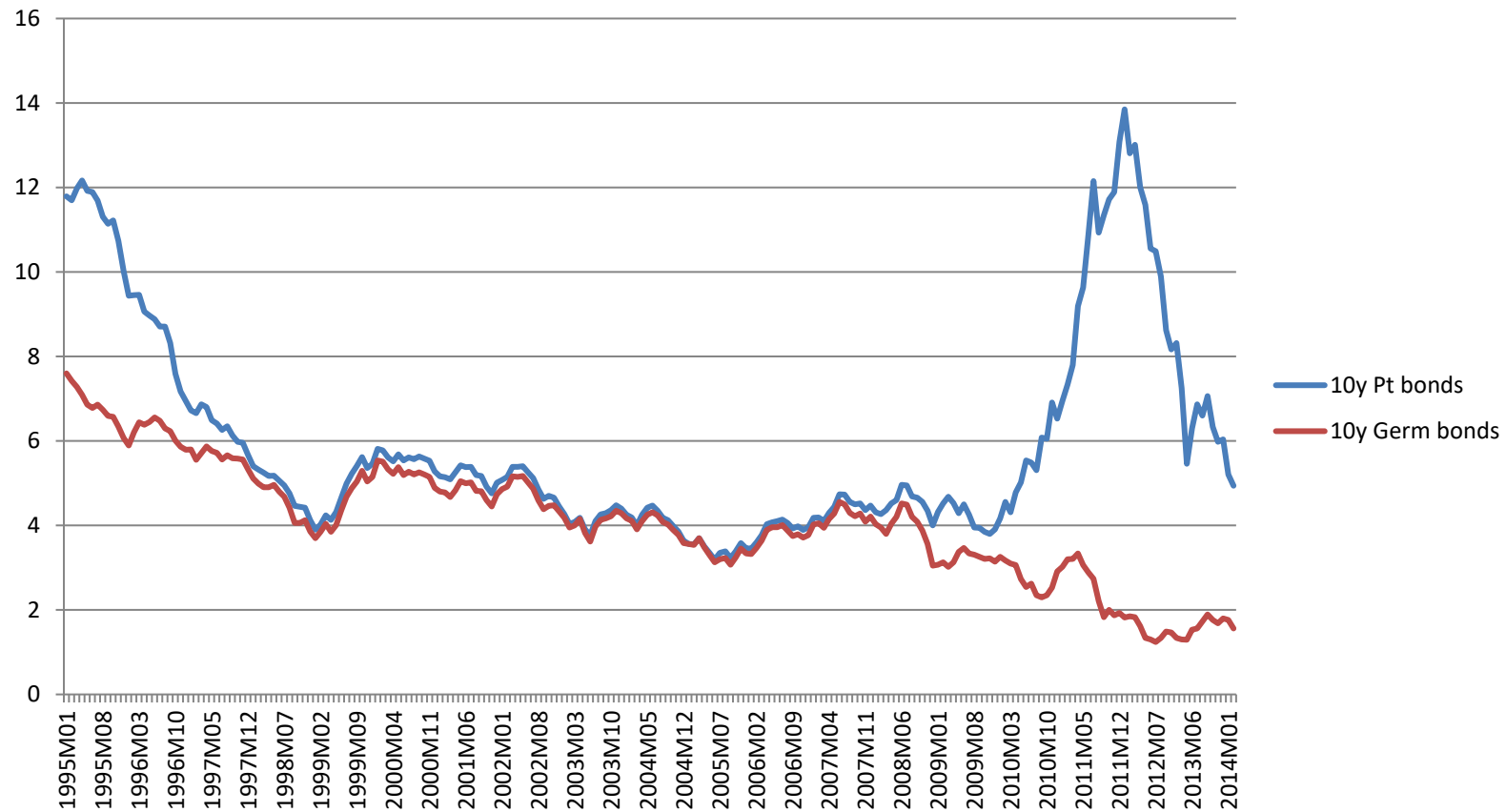
The existence of labour mobility, i.e., the integration of labour markets, is a necessary condition for an optimal currency area. When an asymmetric shock takes place the higher unemployment in the negatively affected country/region is mitigated by the movement of workers towards the expanding regions. Therefore, there is a smoothing of economic cycles, which makes it easier for the central bank to manage monetary policy. In addition, the adjustment to economic shocks does not entirely operate through (difficult) wage changes. In structural terms, labour mobility would promote a convergence of wages across countries, thus contributing to real convergence. However, if fast growing areas are positively affected by the dynamics of labour inflows (positive agglomeration effects) the movement of workers continues out of the poorer region leading to a desertification. In this case there is economic divergence. Although labour mobility is enshrined in the Treaties, the EU is quite distant (in practice) from the paradigm of cross-country labour mobility.

IS THE SOVEREIGN DEBT CRISIS ONLY A CRISIS OF SOVEREIGN DEBT?

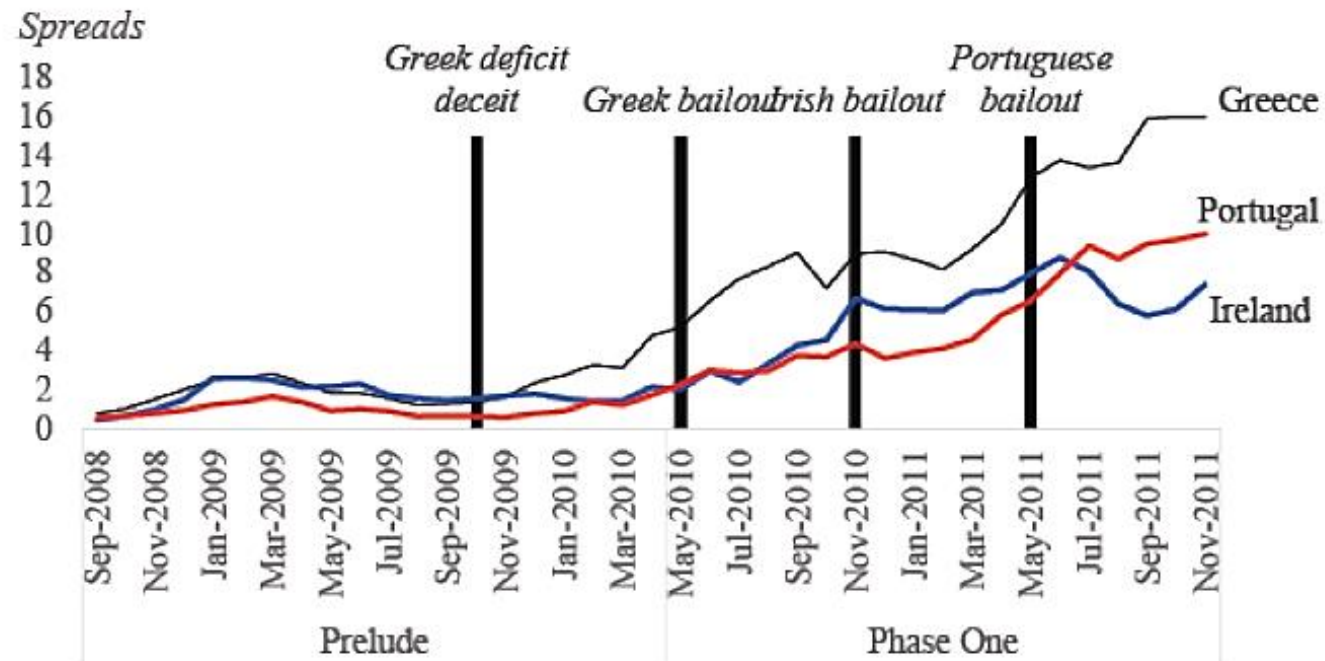


- Why were some countries with previously disciplined fiscal policies mostly hit by a sovereign debt crisis?

- Risk premium Portugal vs Germany

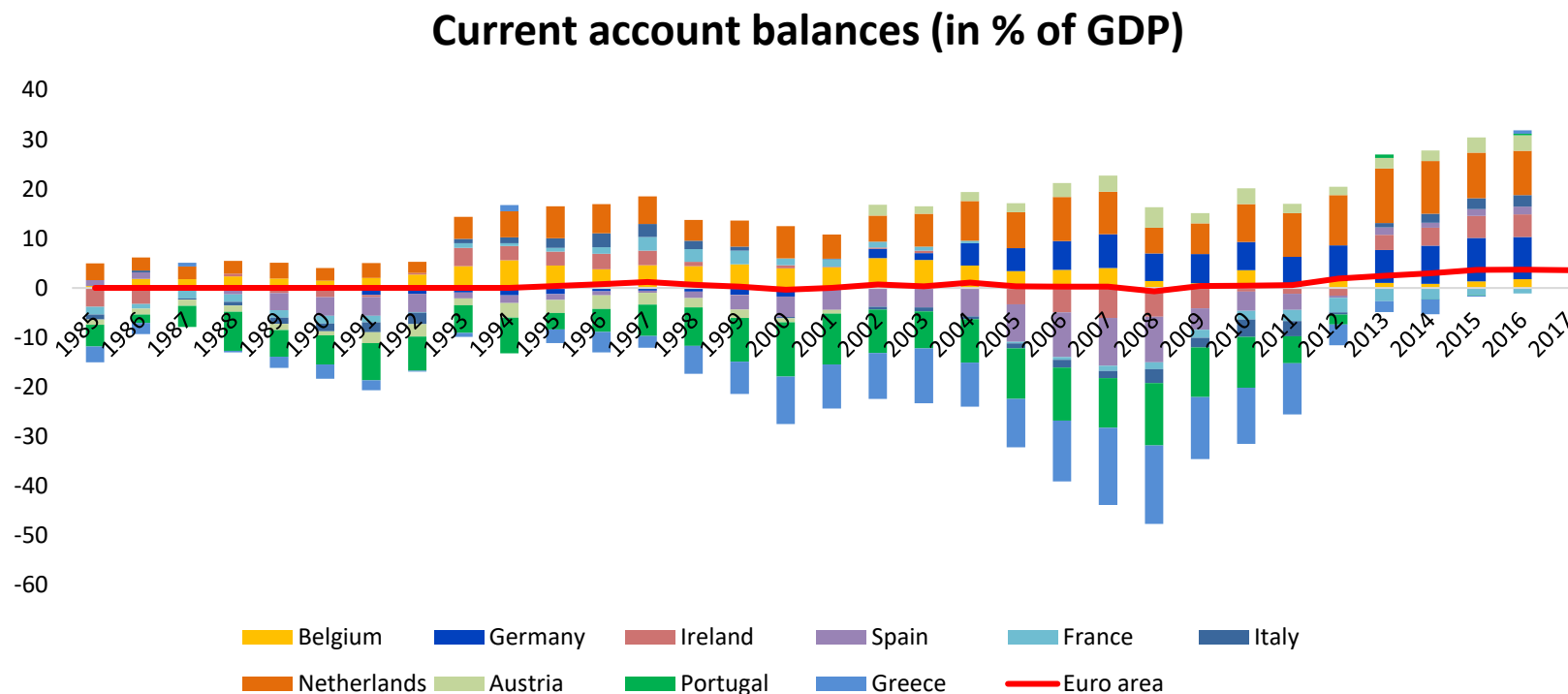


EU SOVEREIGN DEBT CRISIS



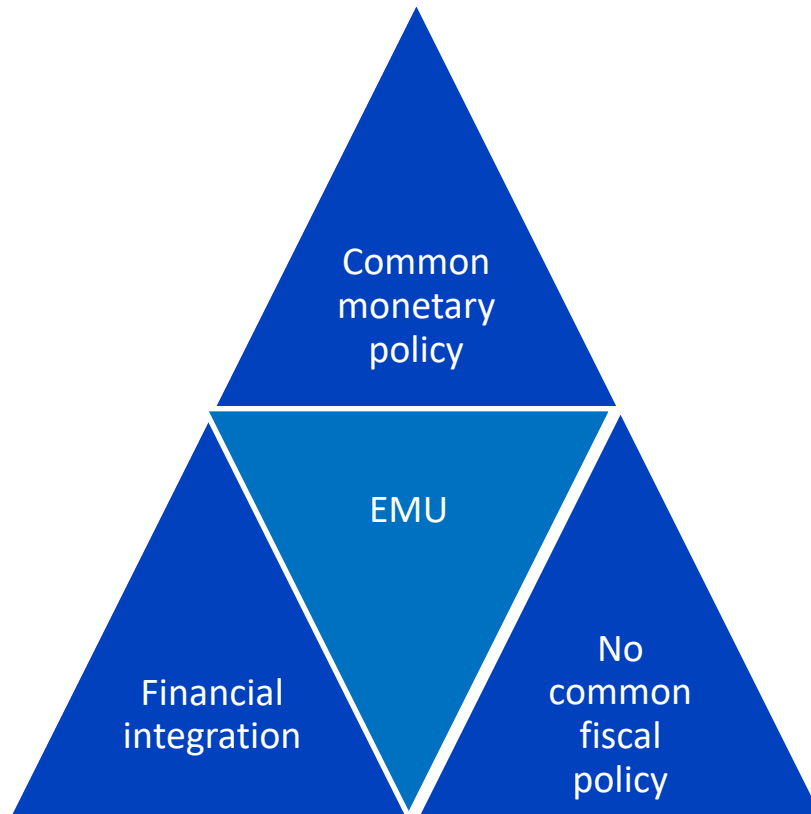
- Precipitated by Greek bailout.
- Rapidly spread to other countries with similar vulnerabilities and imbalances.
- Crisis highlights fragilities in the 'institutional architecture' and functioning of the EU.

CURRENT ACCOUNT BALANCES MAY BE MORE RELEVANT TO CRISES



- Current account: net borrowing from abroad (Investment /savings gap)
- EU current account balanced: limited net lending from abroad
- Situation reflects net lending from EU surplus countries to EU deficit countries (does this reflect real convergence of the periphery towards EU core countries?)

IS THE INSTITUTIONAL ARCHITECTURE ADEQUATE TO ALLOW THE GOOD FUNCTIONING OF A MONETARY UNION?



- Financial integration exposes vulnerable countries to the risk of sudden stop
- Macroeconomic imbalances make countries vulnerable
- Correlation between sovereign risk and banking risks
- In a crisis, private debt usually becomes 'public'
- The Eurozone did not have adequate institutions and tools to deal with this problem (i.e. lender of last resort, currency devaluation, possibility of fiscal transfers...)

Lack of cohesion in the EU - Questions from previous exams/midterms

17th January 2017

The crisis in the euro area after 2010 has been attributed to a sudden-stop of external financing to some economies.

a) Briefly explain what drives a current account imbalance and later a financing crisis.

The current account balance is described by the fundamental identity of macroeconomics $(S-I)+(T-G)=(X-M)$, stating that the government balance, savings rates and investment levels may lead to external financing that accumulates into external debt. When foreign investors realize that indebtedness is too high, given the foreseeable GDP growth rates and/or an international shock takes place, they stop financing (sudden-stop). The subsequent financing problems increase distrust and turn additional financing becomes even harder to obtain

Lack of cohesion in the EU - Questions from previous exams/midterms

b) Why is it so difficult to solve such a problem within the setup of a monetary union?

In a monetary union the absence of exchange rate policy does not allow for a depreciation that triggers and expenditure switching towards exports (and a contraction of imports). Moreover, the absence of automatic stabilizing mechanisms in the monetary union, such as common unemployment subsidies or other federal fiscal policies, turns the situation worse. The loop between the sovereign debt and the domestic banking systems is also a major disturbing factor. Therefore, countries are forced to adopt very stringent expenditure reducing policies, which create recessions and lead to lower wages and lower inflation. The negative side effects on the solvency of the banking system (through more non-performing loans) and in the government balance may create a recessionary loop. Only positive supply-side elements assure a lasting rebalancing and growth.