Department of Economics

COURSE TITLE
Economics of European Integration

MODULE CODE
EC4333

Autumn Semester 2007/08

Lecturer:
Dr. Stephen Kinsella
Room: AM068b
Office Hours: by appointment
e.mail: stephen.kinsella@ul.ie

Tutor/s: Mr Neal Kilbane (Office EM019)

Department of Economics
Co-ordinator: Ms Grainne O’Connell
Room: EM023 Ext: 2284
Office Hours: 09h00 – 17h00
e.mail: grainne.oconnell@ul.ie
Economics of European Integration
EC4333, Semester 1, 2007/8

Dr Stephen Kinsella
Department of Economics,
Kemmy Business School,
University of Limerick
http://www.stephenkinsella.net

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1 Introduction

The years since 1945 have been the longest period since 113 B.C. in which no army has crossed the Rhine with war-like intentions. The very idea of war between the European Union’s member States seems so remote as to be nonsensical. The creation of the European Union (EU); a legal, political, economic, cultural, and soon to be military entity, is one of the greatest economic experiments in the history of Mankind. The shape and scope of the EU has the capacity to affect the lives of hundreds of millions of people in different ways, some positive, some negative. Thus a careful study of this experiment is in order.

This course is about using economics to understand the history of the EU, its significance in terms of the post 1945 World Economy, its development up to today, and the prospects for change most likely in the future. We have 24 contact hours. Each 2 hour block will be thematic, that is to say, this is not a survey course in International Economics or naive Trade theory. Rather, this course will focus on developing the appropriate models and conceptual frameworks to understand a particular issue facing the EU today. The objective of the course is to inform potential future policy makers of the issues at stake and equip them with the tools to analyze these issues.

1.1 Learning Outcomes

By the end of this course, students should be

- conversant with the historical literature on the development of the EU having written several thousand words on the subject;

- understand transaction-cost analysis, institutional analysis, optimal currency area theory and simple models of capital and labour market integration and be able to apply these theories to current practice following the problem sets given in class;

- conversant with the Solow model of economic growth, theory and practice of convergence, and able to assess the empirical reality of these claims;

- knowledgeable about EU social and environmental policy and their impact on the Irish economy.
1.2 Grading

To get a grade for this class students will have to sit a final exam worth 50% of their final grade, two problem sets worth 15% each, beginning in week 5, and an essay worth 20%, due by week 5. The exam is an essential part of the assessment, and each part of the course assessment must be passed to pass the course outright.

With respect to the repeats, a student would normally carry the course work marks to be incorporated into the overall repeat exam grade.

Problem sets will be distributed in class and discussed with the TA, with each due the next class each week.

The essay title is the following:

Briefly outline the development of the European Union from the end of World War II to the present day. Discuss the potential economic effects of the fifth enlargement, enacted in May 2004, on Ireland’s economy over the next five years.

Essays should be no longer than 10 A4 pages, typeset in Times New Roman font, size 11, single spaced. A title page is required, and this should include the title of the essay, your name, your student number, and a word count. Neither the title page nor the reference list are not part of the page count. Ensure you reference all articles and data used in an appropriate and academic fashion. The essay will be due the Monday of the fifth week of term. All essays must be submitted in hardcopy to the departmental office and by email to stephen.kinsella@ul.ie with the student’s name, student number and the course code as the filename. So, for example, the file will be called 0123456_Kinsella_Stephen_EC4333_Essay.doc.

Plagiarism will not be tolerated. Students should refer to the University’s policy on plagiarism in their Student handbooks, and for referencing help, go to www.ul.ie/library/pdf/citeitright.pdf. The essays will be graded according to the schema available on http://www.stephenkinsella.net/ec4333. Written feedback will be given on all essays.

1.3 Course Notes and Textbook

There is no one textbook for the course. Readings are taken from many textbooks, and all are on reserve in the library. Readings which are not part of textbooks are available online as a course pack at http://www.stephenkinsella.net. Course notes, slides, links to datasets, and a podcast of the lecture will be available from the course site after each lecture. Attendance at lectures is mandatory.

2 Course Outline

The lectures are not designed to fit into 2 hour slots: some will be longer—like the economics of Monetary Union—and some will be shorter. All readings available in the library have their codes given in sans serif font to speed you in finding them. Readings marked with a * are the essential readings for the next lecture, so if you read only one thing that week, the starred reading should be it.

Lecture One Introduction to the course, definition of ‘economic integration’, history of the institutions of the European Union to date. Readings: none.

Lecture Two History of the EU to date continued, Institutional Analysis of the dynamic of European integration and the stages of economic integration (customs union-common market-economic and monetary union) especially the fifth enlargement and the Treaty of Rome. Structure of the EU. Readings:
* Beach, D., *The Dynamics of European Integration*, pgs. 1–31, and pgs. 214–244, 337.142 BEA.


* McDonald, F. and Dearden, S. *European Economic Integration*, 3rd ed., pgs 34-53, 337.142 MCD.

**Lecture Three** Economic and Monetary Union, development of current policies and prospects for the future. Models of Customs Unions for Product and Factor Markets and empirical results on levels of integration across these markets. Readings:

* Pelkmans, J. *European Integration: Methods and Economic Analysis* 1st ed., pgs. 83–104 and 133–155. 337.142 PEL.


**Lecture Four** Economic and Monetary Union Continued, theories of Monetary Union. Readings:


* Healey, N. ‘Economic and Monetary Union’, in McDonald, F. and Dearden, S. *European Economic Integration*, 3rd ed., pgs. 94–114, 337.142 MCD.


**Lecture Five** The Common Agricultural and Fisheries Policies, history, theory, and analysis. Readings:


* Pelkmans, J. *European Integration: Methods and Economic Analysis* 1st ed., pgs. 164–182. 337.142 PEL.

**Lecture Six** Competition Policies, Regional Policies and Environmental Policies in the EU.


* Pelkmans, J. *European Integration: Methods and Economic Analysis* 1st ed., pgs. 164–182. 337.142 PEL.

**Lecture Seven** Economic Inequality across the EU


* Jansen, S. E. H. “Wage Rigidity, Monetary Integration and Fiscal Stabilisation in Europe”, in Deissenberg, Owen and Ulph, eds. *European Economic Integration*, published as a supplement to the Review of International Economics, Vols. 4-5., pgs. 36-54. 337.142 DEI. (Note, this is a hard paper, but students who know calculus should attempt it.)

**Lecture Eight** Enlargement: Factor Mobility and Political Economy of accession to the EU.

  * Estrin, S. and Holmes, P. Competition and Economic Integration in Europe, pp. 1–22. 337.142 EST

  • Smith, E. ‘EU Competition Policy Without Membership: Lessons for the European Economic Area’, in Estrin, S. and Holmes, P. Competition and Economic Integration in Europe, pgs. 48–60. 337.142 EST

  • Willem H. Buiter and Anne C. Sibert, ‘Eurozone Entry of New EU Member States from Central Europe: Should They? Could They?’

**Lecture Nine** Location Effects, Regional and Industrial Policy. Deeper EU integration may have significant implications for the economic activity of member states. Changing trade relations, increasing competition, and the increased mobility of goods, services and people will all affect the location of industries across the EU. How should member states and the EU react? Can an active industrial policy be justified? What form should regional policy take?


**Lecture Ten** International Trade, Tariffs, and Globalization. The EU is the largest trading bloc in the world. What are the effects one might expect from a economic entity as large as the EU changing its trade-tariff policies?


**Lecture Eleven** The EU and Ireland. Ireland is the poster-child for the benefits of accession to the EU. Other small open economies have not done so well. What does continued membership of the EU mean for Ireland today?


**Lecture Twelve** Recap lecture. Readings: All of them!