

EXAM ECONOMICS OF EUROPEAN INTEGRATION DOM09A
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This is a written **closed**-book exam for which you have **2 hours** time. Please write your name on each page and hand in all pages together. Good luck!

You are allowed to answer your questions in Dutch if you want so!

The exam consists of 4 questions.

Calculation of your grade: the total number of point that can be earned (maximum = 65) is divided by 65 and multiplied by 20.

Question 1 (15 points)

Assume there are 3 symmetric countries: Home, Customs Union and RoW. Home is not yet a member of the Customs Union. Home has a 0% duty on imports (i.e., home has free trade policy) and accedes to the Customs Union, which has a $> 0\%$ common external tariff vis-à-vis RoW. Using the PTA diagram, analyze the trade and welfare effects of Home's accession to the customs union. Analyze these effects for Home, Customs Union and RoW.

Question 2 (15 points, 5 points each sub question)

- a. In response to the 1992 program, mergers and acquisitions in the EU increased sharply. Use the BE-comp diagram to explain why the EU single market provides one possible explanation of this increased merger activity.
- b. What are the possible long run welfare gains from this restructuring?
- c. Use the BE-comp diagram to explain how collusion amongst firms or intervention by nation states may prevent these gains from being realized.

Question 3 (20 points, 5 points each sub question)

- a. What do people mean when they say that the EU exhibits a 'core-periphery' pattern? Has this pattern strengthened or weakened over time?
- b. In light of your answer to (a), what role do you think closer EU integration has played in driving the changes in the EU's core-periphery pattern? Use a graph to explain your answer.
- c. Using your answers to (a) and (b) explain why some people have asserted that 'EU regional policy has been too focused on infrastructure projects at the expense of investment in human capital'.
- d. Briefly assess other possible policies that the EU might consider to tackle its regional problem.

Question 4 (15 points)

A European summit held on March 24/25 2011 decided upon the creation of the European Stability Mechanism in 2013, which will become a bail-out fund filled with 700 billion Euros. The fund is supposed to bail out euro members who are facing a sovereign debt crisis and thus it should prevent weak euroland countries endangering the stability of the euro.

Discuss the reasons pro and con why the euro area might need such a bail out fund.

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