

EUROPEAN ECONOMIC INTEGRATION

Prof. Filip Abraham

Advanced Studies in International Economic Policy Research

IFW, Kiel, class of 2006-2007

The course deals with key aspects of the economic integration process in the European Union (EU). It is organized around four themes (i) integration (ii) liberalization (iii) localization and if time remains (iv) globalisation. Market integration implies the removal of barriers between EU countries. Liberalisation amounts to a combination of deregulation of dominant positions and the integration of EU markets. In the part on localization, the emphasis lies on the localization decision of companies and the implications for regional clustering and economic policy. Globalisation is a broad concept with many different interpretations. In this course, we will only deal with the trade relations of the EU with other trading blocks.

There are several high quality textbooks available on European Integration aimed at different audiences. In this course, I combine teacher handouts and journal articles with several chapters of the textbook by Richard Baldwin and Charles Wyplosz (2006), *The Economics of European Integration*. Second Edition. McGraw-Hill Education.

In this outline, a distinction is made between core and background materials. If a reading material carries a * it is considered as a core reading. If not, the article is optional and provides additional background for the discussions in class. At the end of this outline, I give an overview of commonly used textbooks and useful web sites.

Lectures will be given during the morning sessions. Students will have access to the slides used during the lectures. Grades will be based on an open book, written exam. Problem sets are found in the course materials, which are the best preparation for the final exam.. Answers to the problem sets will be handed in due time. I will be available in the afternoon for questions and discussion.

For any problems and further information, I can be reached at Naamsestraat 21, 3000 Leuven, Belgium; ph (32) 16-32 40 75 (secretary); mobile phone (32) 476- 23 05 28; fax (32) 16-32 41 88; e-mail : filip.abraham@econ.kuleuven.be

DETAILED COURSE OUTLINE

Part 1: Integration

Introduction and the removal of barriers :

- *Baldwin and Wyplosz, chapter 2
- Baldwin and Wyplosz, chapter 3

The effects of integration

- *Abraham, F. "From market Segmentation to Market Integration : An Economic and Business Perspective," teacher handout.
- Baldwin and Wyplosz, chapter 5

Empirical Evidence

Studies on price convergence

- Engel,C. and J.H. Rogers (2004) "European Product Market Integration after the Euro" *Economic Policy* no 39, July 2004, p 347-384.
- *Goldberg,P.K. and F. Verboven (2004) "Cross-country Price Dispersion in the Euro Era: A Case Study of the European Car Market" *Economic Policy* no 40, October 2004,p 483-522.

Studies on home market bias and trade integration in the EU

- Sapir, A. (1996) "The Effects of Europe's Internal Market Program on Production and Trade: A First Assessment," *Weltwirtschaftliches Archiv*, 132, p 457-475.
- *Chen, N. (2004) "Intra-national versus international trade in the European Union: why do national borders matter?" *Journal of International Economics*, Volume 63, Issue 1, May 2004, p 93-118.
- Delgado,J. (2006) "Single Market Trails Home Bias" Bruegel Policy Brief no 2006/05, October.

Studies on the trade effects of EMU

- *Baldwin, R. (2005) "The Euro's Trade Effects," Paper prepared for the ECB Workshop in Frankfurt on June 16, 2005.

- Micco, A., Stein, E. And G. Ordonez (2003) “The Currency Union Effect on Trade: Early Evidence from EMU” *Economic Policy* vol 37, October 2003, p 317-356.
- Rose, A.K. “One Money, One Market: The effect of Common Currencies on Trade,” *Economic Policy*, April 2000, 15(30), p 7-33.

EU Enlargement: The outsourcing and offshoring debate

Marin, D. (2006) “A New International Division of Labor in Europe: Outsourcing and Offshoring to Eastern Europe” *Journal of the European Economic Association*, April-May 2006, Vol. 4, No. 2-3, p 612-622.

Part 2: Liberalization

Regulatory aspects

- *CEPR (1998) *Europe's Network Industries : Conflicting Priorities*. Monitoring European Deregulation 1. p 1-47.

Effects of liberalization in a model of monopolistic competition

- *Baldwin and Wyplosz, chapter 6
- *Abraham, F. "Deregulation and Market Integration under Imperfect Competition," teacher handout

Effects of liberalization on economic growth:

- *Aghion P and P. Howitt (2006) "Appropriate Growth Policy: A Unifying Framework" *Journal of the European Economic Association*, April-May 2006, Vol. 4, No. 2-3: 269-314.
- Baldwin and Wyplosz, chapter 7

Empirical evidence

- Martin, R., Roma, M. and I. Vansteenkiste (2005) "Regulatory Reforms in Selected EU Network Industries," European Central Bank Occasional Paper Series no 28, April 2005.
- Abraham, F., Konings, J. and S. Vanormelingen (2006) "Price and Wage Setting in an Integrating Europe," Working Paper Research no 93, National Bank of Belgium.

Policy Aspects: control of mergers and anti-competitive practices

- Baldwin and Wyplosz: chapter 11
- *Bergman, M.A., Jakobsson, M. and C. Razo (2005) "An Econometric Analysis of the European Commission's Merger Decisions," *International Journal of Industrial Organization*, vol 23 issues 9-10, p 717-738.

Part 3: Localisation

Theory

- *Baldwin and Wyplosz, chapter 10
- *Midelfart-Knarvik, K. H. and H.G. Overman (2002) “Delocation and European Integration: Is Structural Spending Justified?” *Economic Policy* no 35, p 323-359.

Empirical Evidence

*Combes,P. and H.G. Overman (2004) “The Spatial Distribution of Economic Activities in the European Union” in Henderson,V. and J.-F. Thisse (eds) *Handbook of Urban and Regional Economics*. Elsevier-North Holland: Amsterdam.

Policy Aspects: Control of National Subsidies and EU Regional Policy

- Dewatripont, M. and P. Seabright (2006) “Wasteful Public Spending and State Aid Control,” *Journal of the European Economic Association*.April-May 2006, Vol. 4, No. 2-3,p 513-522.
- Baldwin, R., Forslid, R., Martin, P., Ottoviano,G. and F. Robert-Nicoud (2003) *Economic Geography and Public Policy*. Princeton University Press, chapter 9.

Part 4: Globalisation: EU trade relations

For an institutional overview: Baldwin and Wyplosz: chapter 12.

Multilateralism and the WTO

For those who are interested, a useful book on the functioning of the WTO is: Hoekman, B.M. and M.M. Kostecki (2001) *The Political Economy of the World Trading System: The WTO and Beyond*. Second Edition. Oxford University Press, p 49-141.

A theoretical analysis of the economic foundations of the WTO is found in the work by Bagwell and Staiger summarized in their book Bagwell, K. and R.W. Staiger (2002) *The Economics of the World Trading System*. MIT Press: Cambridge.

Regionalism:

*Lamy, P. (2002) "Stepping Stones or Stumbling Blocks? The EU Approach towards the Problem of Multilateralism vs Regionalism in Trade Policy," *World Economy*, vol 25 no 10, p 1399-1413.

Protection:

- Messerlin, P (2001) *Measuring the Costs of Protection in Europe: European Commercial Policy in the 2000s*. Institute for International Economics, chapter 2.

SOME USEFUL INFORMATION

Textbooks about European Integration (as an alternative to the book by Baldwin and Wyplosz)

Wallace, H and Wallace, W. (2005) *Policy Making in the European Union*. Oxford University Press.

Artis, M. and F. Nixon (2001) *The Economics of the European Union*. Third Edition. Oxford University Press.

Pelkmans, J. (2001) *Methods and Economic Analysis*. Second Edition. FTP Prentice Hall.

A more introductory textbook is: Molle, W. (2006) *The Economics of European Integration: Theory, Practice and Policy*. Fifth Edition, Ashgate Publishing Ltd: Aldershot.

Websites with information on European and global issues

- The Economist; <http://www.economist.com>
- The Financial Times; <http://www.ft.com>
- The World Trade Organisation; <http://www.wto.org>
- The European Union; in particular check the website of the European Commission <http://europa.eu.int>
- The International Monetary Fund; <http://www.imf.org>
- Institute for International Economics: Washington-based think-tank about international economics; <http://www.iie.com>
- National Bureau of Economic Research (NBER): US-based research institution in economics with interesting working papers on international economics among other fields <http://www.nber.org>
- Centre for European Policy Research (CEPR): London-based equivalent of the NBER for Europe. <http://www.cepr.org>
- Several articles in this reading list come out of Economic Policy, a policy-oriented Economic Journal with a keen interest in European matters see <http://www.economic-policy.org>