

# The Economics of European Integration

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This course is designed for students with a good background in general microeconomics and some knowledge of international trade theory and policy analysis. The course is based on lectures and in-class presentations of assigned problems or of assigned articles by small groups of students.

## **Textbook**

Baldwin & Wyplosz, partial manuscript "The economics of European integration." Available on <http://www.unige.ch/~baldwin/papers/BW/bw.htm>

## **General Textbooks on European Economic Integration**

- o Wallace, H and Wallace, W. (1996) Policy-making in the European Union, Oxford.  
Excellent treatment of history, politics and institutions.
- o Artis, M. and Lee (1995) The economics of the European Union, Oxford.  
This is the best selling text in Europe.
- o Nicoll, William, and Trevor Salmon (1994) Understanding the New European Community, Harvester-Wheatsheaf.  
Chapters 1-3 has a good political economy of early development of EU (including the global context) with inclusion of some security issues.
- o Molle, Willem,(1990) The Economics of European integration: Theory, Practice and Policy, Dartmouth.  
Good graphically treatment of CU and FTA, and Common Market (factor mobility) under perfect competition. Not much new stuff on increasing returns, growth effects, etc. Not much on EC92.
- o Edward Nevin, The Economics of Europe, Macmillan, 1990.  
This is probably the best textbook for introductory level treatment of the issues with words and diagrams.
- o El-Agraa, A.M. (1994) The Economics of the European Community, Harvester-Wheatsheaf, 4th Edition.  
This has a fairly complete treatment of all effects, but the reasoning is a quite loose.

## **Websites:**

- Good and succinct descriptions of EU institutions (and much more) can be found on the European Parliament's website: [http://www.europarl.eu.int/factsheets/default\\_en.htm](http://www.europarl.eu.int/factsheets/default_en.htm)
- The Commission's website is less well organized (it is organized by bureaucratic departments, but since the task-allocation is partly political, the organization can seem ad hoc), but has a lot of very up-to-date information on various programmes. The best way to find things is to use [www.google.com](http://www.google.com), typing in the subject (e.g. competition policy) and "European Commission" in quotes.
- Leiden University History Dept maintains a good site on EU history in its broadest sense. The index also contains many links to European institutions, etc. Many original documents can be download (e.g. the Treaty of Rome) by following the links. <http://www.let.leidenuniv.nl/history/rtg/res1/index.htm>
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**Ground rules on the readings:**

- o Specific readings are listed for each lecture.
- o "+ Readings": Articles and chapters marked with a "+" summarise the fundamental concepts using little or no mathematics. Given the diversity of students, all students should at least skim the material and those that have not had a good, advanced undergraduate course in trade should study the material closely.
- o "\* Readings": Those marked with a "\*" are required.
- o Other readings are optional.

# Microeconomics of European Integration

## History

### Session 1.

\* Baldwin and Wyplosz, Chapter 1

## No Imperfect Competition, No Increasing Returns (NICNIR)

### Session 2.

#### A Framework for Policy Analysis

\* Baldwin and Venables (1995) "Regional Economic Integration", in Handbook of International Economics: Vol. III, North-Holland, section 1.2

\* Baldwin Teaching Handout "An Organising Framework."

#### Diagrammatic and Algebraic Analysis: Basic ideas and Viner's Ambiguity

From algebraic decomposition to diagram analysis, MFN diagram

Types of barriers

Unilateral PTA, tariffs

+ Chapter 3.1 Baldwin-Wyplosz manuscript

\* Baldwin and Venables pp 1602-1605

### Session 3.

#### General Theorems: Meade-Kemp-Wan-Ohyama, Dixit&Norman

\*Baldwin Teaching Handout

#### Empirical evidence

\* Sapir "Domino Effects in Western European Trade, 1960-92", European Journal of Political Economy.

\* "Trade creation and trade diversion" Allen, Gasiorek & Smith (1996), in The Single Market Review Series.

\* pp. 60-69, Neal and Barbazat (1998) The Economics of the European Union and the Economies of Europe, Oxford University Press.

### Session 4.

#### Political Economy of Frictional Barriers

In-class Group presentations on:

FTA with Tariffs

FTA with Frictional Barriers

Hub & spoke arrangements

## Imperfect Competition and Increasing Returns (ICIR), Theory

### Session 5.

### Session 6.

Integration as Reduced Trade Barriers: Market fragmentation and the pro-competitive effect

\* Teaching handout, "The pro-competitive effects of trade liberalisation"

\* Baldwin and Venables pp 1605-1614  
In-class problem presentations by group

#### Session 7

#### Session 8

##### Integration as Market Integration

\* Teaching handout, "The pro-competitive effects of market integration"

##### Restructuring and Scale Effects

+ Chapter 3.2 Baldwin-Wyplosz

In-class problem presentations by group

Other Readings:

Supplementary reading (optional): Venables (1990) "The economic integration of oligopolistic markets," EER, 34, 753-773.

Smith and Venables (1988) "Completing the Internal Market in the European Community: Some industry simulations," EER, 32, 1501-1525.

Haaland-Wooton (1992) in European integration: Trade and industry, A. Winters (ed) Cambridge University Press.

#### Session 9

In-class problem set presentations by group (Problems handed out previous session)

## **Imperfect Competition and Increasing Returns (ICIR), Emprics**

#### Session 10

\* Head and Meyer, "Non-Europe: The Magnitude and Causes of Market Fragmentation in the EU" January 19, 2000, Forthcoming in Weltwirtschaftliches Archiv

\* Allen, Gasiorek & Smith "The competition effect of the Single Market in Europe," Economic Policy, October 1998.

\*pp.75-91 "The Single Market Review: Background information for the report to the Council and European Parliament", 1996, European Commission, SEC (96) 2378.

## **Growth effects, theory**

#### Session 11

##### Neo-classical approach

\* Baldwin, "Growth Effects of 1992," Economic Policy, 9, pp 247-282, 1989.

+ Baldwin and Wyplosz, Chapter 3.3

In-class problem presentations by group

#### Session 12

#### Session 13

##### Endogenous growth approach

\* Baldwin and Forslid, "Trade Liberalisation and Endogenous Growth: A q-Theory Approach," Journal of International Economics, vol. 50, No. 2, pp 497-517, 2000.

+ pp 13-18, Baldwin and Wyplosz, Chapter 3.3

In-class problems

## Growth effects, Empirics

\* Henrekson, Torstensson and Torstensson, 1997, EER.

## **Location Effects: Theory**

### Session 14

### Session 15

#### Core-Periphery model, Krugman version

\* Baldwin, Forsild, Martin, Ottaviano and Robert-Nicoud (2000) "The Core-Periphery Model: Key Features and Effects" manuscript.

In-class problem presentations by group

Optional supplementary reading:

Neary (2000) "Of Hype and Hyperbolas: Introducing the New Economic Geography", forthcoming Journal of Economic Literature.

Chapter 5, Fujitita, Krugman and Venables, The spatial economy, MIT Press, 2000.

### Session 16

#### Core-Periphery model, Venables version

\* Chapter 14, Fujitita, Krugman and Venables, The spatial economy, MIT Press, 2000. (Just read the first part to get an idea of what is different).

Location and customs union formation

\* Puga & Venables (1997), 'Preferential trading arrangements and industrial location', Journal of International Economics, 43, 347-368.

Optional supplementary reading:

Venables (1996) 'Equilibrium locations of vertically linked industries', International Economic Review, 37, (1996), 341-359

## **Location Effects: Policy**

### Session 17

#### EU Cohesion and Structural Funds

\* David Allen (1996), "Cohesion and Structural Adjustment," Chap 8, in Wallace and Wallace. Philippe Martin (1999), " Are European Regional Policies Delivering?" EIB Papers, Volume 4 No 2, 1999.

#### Recent developments

\* Reading from the web, to be assigned

## **Location Effects: Empirics**

### Session 18

In-class presentations of (to be divided among the groups)

\*"The location of European industry", K.H. Midelfart-Knarvik, H.G. Overman, S.J. Redding, and Venables (2000). Report (written for the Directorate General, Economic and Financial Affairs, European Commission)

## **Political Economy of European Integration: Domino Theory, etc.**

### Session 19.

\* Sapir (1998), "The political economy of EC regionalism", Eur. Economic Review Vol. 42 (3-5) pp. 717-732.

\* Baldwin (1997), "The causes of regionalism," The World Economy, Vol. 20, No, 7, pp 865-888.

## **EU Reforms: The Convention**

### Session 20.

\*Monitoring European Integration 12, CEPR, 2003.