MONETARY AND FISCAL POLICIES IN THE EU

Prof. Paul De Grauwe February 2012

Course outline and reading list:

The course is based on the book:

De Grauwe, P., *The Economics of Monetary Union*, Oxford University Press, eight edition, 2009.

As I am working on the Ninth edition I will hand out new material

The lectures will deal with the following topics:

(Starred items are required readings)

1: The theory of optimal currency areas

Readings

*De Grauwe, P., 2009, Economics of Monetary Union, Oxford University Press, Chapters 1, 2, 3, 4, 5

Kenen, R. (1969) 'The Theory of Optimum Currency Areas: An Eclectic View', in R. Mundell and A. Swoboda (eds), *Monetary Problems of the International Economy*, Chicago: University of Chicago Press.

McKinnon, R. (1963) 'Optimum Currency Areas', *American Economic Review*, 53: 717–25.

Mundell, R. (1961) 'A Theory of Optimal Currency Areas', *American Economic Review*, 51.

2. Optimal currency areas: empirical issues

Bayoumi, T., and Eichengreen, B. (1993) 'Shocking Aspects of European Monetary Integration', in F. Torres and F. Giavazzi (eds), *Adjustment and Growth in the European Monetary Union*, London: CEPR, and Cambridge: Cambridge University Press.

Frankel, J., and Rose, A. (1998) 'The Endogeneity of the Optimum Currency Area Criteria', *Economic Journal*, 108(441): 1009–25.

Frankel, J., and Rose, A. (2002) 'An Estimate of the Effect of Currency Unions on Trade and Output', *Quarterly Journal of Economics*.

3: The Fragility of incomplete monetary unions

*De Grauwe, P., op. cit., chapter 6

*De Grauwe, P., (2011), The Governance of a Fragile Eurozone, Economic Policy, CEPS Working Documents, May, http://www.ceps.eu/book/governance-fragile-eurozone

*Eichengreen, B., Hausmann, R., Panizza, U., (2005), "The Pain of Original Sin", in Eichengreen, B., and Hausmann, R., *Other people's money: Debt denomination and financial instability in emerging market economies*, Chicago University Press.

Kopf, Christian, (2011), **Restoring financial stability in the euro area**, 15 March 2011, in CEPS Policy Briefs.

Krugman, P. (1979) 'A Model of Balance of Payment Crises', *Journal of Money, Credit and Banking*, 11(3): 311–25.

McKinnon, R. (1996) Default Risk in Monetary Unions, background report for the Swedish Government Commission on EMU, Stockholm.

Asdrubali, P., Sorensen, B., Yosha, O., 1996, Channels of Interstate Risk Sharing in the United States, 1963-1990, Quarterly Journal of Economics, 1081-1110.

Obstfeld, M. (1986) 'Rational and Self-Fulfilling Balance of Payments Crises', *American Economic Review*, 76: 72–81.

4: The institutional design of the European Central Bank

Readings

*De Grauwe P., op. cit., chapter 7.

Eijffinger, S., and de Haan, J., 2000, European Monetary and Fiscal Policy, Oxford University Press, chapter 2

Bagehot, W., (1873), *Lombard Street*, 14th ed., London: Henry S. King and Co. http://www.econlib.org/library/Bagehot/bagLom1.html

Buiter, W., (2008), Can Central Banks Go Broke, CEPR Policy Insight, No. 24, Centre for Economic Policy Research, London, May.

5: Monetary policies in the Eurozone

Readings

*De Grauwe P., op. cit.. chapter 8.

Eijffinger, S., and de Haan, J., chapter 3

Issing, O., Gaspar, V., Angeloni, I., Tristani, O. 2001 Monetary Policy in the Euro Area, Cambridge University Press.

6: The Stability and Growth Pact and other fiscal policy issues

Readings

*De Grauwe, P., op. cit., chapter 9

Buiter, W., and Graffe, C;, 2003, Reforming EMU's fiscal policy rules, in Buti, M., (ed.), Monetary and Fiscal Policies in EMU, Cambridge, 2003.

Wyplosz, C., European Monetary Union. The Dark Sides of a Major Success, Economic Policy, April 2006, pp. 207-261.

EC Commission (1977) Report of the Study Group on the Role of Public Finance in European Integration (MacDougall Report), Brussels.

Political Shocks, Public Debt and the Design of Monetary and Fiscal Institutions (with Lans Bovenberg), *Journal of Economic Dynamics and Control*, Vol.30, No.11, pp.1857-1883, 2006.

Detken, Gaspar, V., Winkler, B., (2004), On Prosperity and Posterity. The Need for Fiscal Discipline in a Monetary Union, ECB Working Paper, 240, December.

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