# Political economy of the European Union

## Prof. Domenico Delli Gatti; Prof. Daniele Siena

***COURSE AIMS AND EXPECTED LEARNING OUTCOMES***

The objective of the course is to provide the conceptual tools to understand (i) the institutional setup and present governance of the *European Union*; (ii) the main steps and current features of the European *economic* integration -- such as the Single Market – and the microeconomic and structural policies established in this field; (iii) the main steps and current features of the European *monetary* integration – with the establishment of the *Economic and Monetary Union* (EMU) and the rationale and working of the common currency; (iv) the main fiscal and monetary policy issues and challenges facing the EMU in the light of the Sovereign Debt /Covid-19 Crisis and War in Ukraine.

At the end of the course students will be able to:

- understand the governance of the European Union, knowing the history and current role of the main governing bodies and of the decision-making process (knowledge);

- analyze, interpret and discuss conceptual issues and empirical evidence to evaluate the strengths and weaknesses of the European response to past, present and forthcoming crisis periods (intellectual skill);

- develop the ability of critical decision making by assessing the micro and macro-economic consequences of structural, fiscal and monetary policies adopted by European institutions (transferable skill).

***COURSE CONTENT***

Module I: *Prof. Domenico Delli Gatti*

1. The history of European integration from the treaty of Rome to Brexit.
2. The essentials of foreign trade liberalization: the rationale of a customs union and of a Single market.
3. Governing bodies and decision making process in the European Union: centralized vs decentralized tasks.
4. The pro-competitive effect of market integration: the increase in the number of firms and the reduction of mark-ups.
5. Some basic open economy macroeconomics.

Module II: *Prof. Daniele Siena*

1. Definition and rationale of a monetary/currency union.
2. The common monetary policy and the European Central Bank: design and performance.
3. Fiscal sovereignty, the Stability and Growth Pact and debt sustainability.
4. The European Sovereign Debt and the Covid-19 Crisis and their aftermath: new developments concerning fiscal policies and monetary policy

***READING LIST***

Required readings

R. Baldwin-C.Wyplosz, *The Economics of European Integration,* McGraw-Hill, 6th edition 2020, chapters 1,2,3,4,5,6,11,13,14.

P. De Grauwe, *Economics of Monetary Union,* Oxford University Press, thirtheen edition 2020, chapters 1,2,3,4,7,8,9,10.

Additional readings

Barro, R. and Gordon, D. (1983) Rules, Discretion and Reputation in a Model of Monetary Policy, Journal of Monetary Economics, 12: 101-21.

De Grauwe, Paul & Dewachter, Hans & Veestraeten, Dirk (1999), Explaining Recent European Exchange-Rate Stability, International Finance, Wiley Blackwell, vol. 2(1), pages 1-31, April.

Reccomended journals

American Economic Review, American Economic Journal: Macroeconomics, Journal of International Economics, Review of Economic Dynamics, Journal of European Economic Association, European Economic Review, Economic Journal, Journal of Monetary Economics, International Finance.

***TEACHING METHOD***

Lectures’ slides and readings will be made available beforehand to stimulate students’ participation and active interaction. Invited experts during the course will provide real life examples of topics of interest for the class. Extensive use of day to day cases (using newspapers) will be discussed and analyzed with the class, allowing to contestualize the course.

***ASSESSMENT METHOD AND CRITERIA***

Students can choose between a “multiple assessment route” and a “single assessment route”.

Multiple assessment route

Students are evaluated by means of two interim written tests, one at the end of module I (first test) and one at the end of module II (second test). Each test consists an open question and an exercise. The final mark of each test will be the weighted mean of the marks reported for the question and the exercise (with equal weights: 50% for the open question and 50% for the exercise). The mean will be rounded to the first integer.

For a PASS in the multiple assessment route, the following conditions must be met: (i) both tests are mandatory and can only be taken in the dates set at the end of each module; (ii) the mark of each test must be greater than or equal to 18/30. The final mark will be the weighted mean of the marks reported for the first and the second tests (with equal weights: 50% for the first test and 50% for the second test). The mean will be rounded to the first integer.

Students who do not pass the mutiple assessment route are evaluated according to the single assessment route. Even though attendance is not mandatory for a PASS in the multiple assessment route, it is strongly recommended.

Single assessment route

Students are required to take a written exam during the session dates assigned to this course. The exam will be administered at one time for both modules and it consists of four components: one question and one exercise for each module. The mark for on each module will be the weighted mean of the marks reported for the question and the exercise (with equal weights: 50% for the open question and 50% for the exercise).

For a PASS in the single assessment route at least 18/30 must be attained in each of the two modules.

Assessment criteria

The student's preparation is evaluated according to the following grading scale:

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| --- | --- | --- | --- |
| **Grade** | **Commmon description** | **Open questions** | **Exercises** |
| **30 - 30 cum laude** | Excellent quality showing a full achievement of learning outcomes beyond normal expectations. | Excellent breadth and depth of knowledge of subject matter  Full understanding of questions  Original and very well formulated arguments, strongly connecting different knowledge objects | Full understanding of multi-cultural business contexts  Strong and fully rigourous use of evidence  Excellent efficacy of applied analysis, with many original and critical arguments |
| **27-29** | Very good quality showing that learning outcomes are surpassed | Good breadth and depth of knowledge of subject matter  Very good understanding of questions  Clearly developed arguments, with some original arguments and connections between knowledge objects | Very good understanding of multi-cultural business contexts  Very good use of evidence  Very good efficacy of applied analysis, with some original and critical arguments |
| **24-26** | Good quality showing that learning outcomes are achieved and to some extent surpassed | Adequate breadth of knowledge of subject matter  Quite complete understanding of questions  Clearly developed arguments, with few original arguments | Quite complete understanding of multi-cultural business contexts  Adequate use of evidence  Adequate efficacy of applied analysis  Originality and critical thinking are present, but limited |
| **21-23** | Basic quality with clear evidence that learning outcomes are achieved | Basic breadth of knowledge of subject matter  Basic understanding of questions with some inadequacies  Developed arguments, without original arguments | Basic understanding of multi-cultural business contexts  Basic use of evidence with some inadequacies  Basic applied analysis with some inadequacies and without original and critical argumentations |
| **18-20** | Sufficient quality showing that learning outcomes are being achieved | Sufficient knowledge of subject matter, even though breadth and depth of knowledge are lacking  Partial understanding of questions  Argumentation is present, but limited | Partial understanding of multi-cultural business contexts  Partial use of evidence  Applied analysis is framed, but limited  Argumentation is present, but limited |
| **0-17** | Unsatisfactory quality showing that learning outcomes are not achieved | Absent or poor knowledge of subject matter  Absent understanding of questions  Argumentation is absent | Absent or poor understanding of multi-cultural business contexts  Absent or wrong use of evidence  Absent or wrong applied analysis  Argumentation is absent |

***NOTES AND PREREQUISITES***

N. ECTS - 8

Enrollment requirements - Basic knowledge of microeconomics and macroeconomics is required. Students who do not have such knowledge are responsible for acquiring it to the extent necessary during the course.

Language - English

Time – I term; 8 hours per lecture week.

Attendance – Even though attendance is not mandatory, it is strongly recommended.

International dimension – International teaching materials, international newspapers as well as international references are used throughout the course.

Professional context - In professional life, having a balanced understanding of the complex macroeconomic and microeconomic determinant affecting European institutions and decision is crucial.

Further information – Additional information regarding the course schedule and delivery, learning assessment, expectation and policies, general announcements, and additional course materials will be posted on Blackboard.

Expectations And Policy

Use of devices - All smartphones, tablets and other electronic devices should be turned off during class. Use of laptops in the class is a privilege and not a right. Laptops are to be used for class activities only. If you are seen surfing, chatting, e-mailing, etc., you will lose laptop privileges.

Course Schedule

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| **#Session/Date** | **Teacher** | **Topics** | **Required readings** |
| 1 | D. Delli Gatti | Introduction – History of the European integration from the beginning to Brexit | Slides Lesson 1  Chapter 1 - Baldwin |
| 2 | D. Delli Gatti | The institutional setup of the EU: governing bodies and the legislative process | Slides Lesson 2  Chapter 2 - Baldwin |
| 3 | D. Delli Gatti | National and supranational levels of governance, the EU ability to act and the distribution of power | Slides Lesson 3  Chapter 3 - Baldwin |
| 4 | D. Delli Gatti | Essential microeconomic tools: price, quantity and welfare effects of introducing or removing tariffs on imports | Slides Lesson 4  Chapter 4 - Baldwin |
| 5 | D. Delli Gatti | Preferential trade liberalization and the establishment of a customs union | Slides Lesson 5  Chapter 5 - Baldwin |
| 6 | D. Delli Gatti | The pro-competitive effects of market integration: market size and scale effects | Slides Lesson 6  Chapter 6 - Baldwin |
| 7 | D. Delli Gatti | Essential macroeconomic tools: monetary targeting and interest rate setting, fixed and flexible exchange rates | Slides Lesson 7  Chapter 13 - Baldwin |
| 8 | D. Delli Gatti | An overview of exchange rate regimes in the world before the Economic and Monetary Union (EMU) | Slides Lesson 8  Chapter 14 - Baldwin |
| 9 | D. Siena | Introduction - Costs and Benefits of currency unions (learning from the EMU) | Slides  Chapter 1 – De Grauwe  Chapter 14,15 - Baldwin |
| 10 | D. Siena | Microeconomic and Macroeconomic Benefits | Slides  Chapter 2,3 – De Grauwe |
| 10 | D. Siena | Costs and Benefits, Enlargement and Convergence Criteria | Slides  Chapter 4,7 – De Grauwe  Chapter 16 - Baldwin |
| 12 | D. Siena | Fiscal Thresholds, the Eurosystem and the ECB - Independence, Accountability and Transparency | Slides  Chapter 7,8 – De Grauwe  Chapter 16 - Baldwin |
| 13 | D. Siena | The European Central Bank and Monetary Policy | Slides  Chapter 8,9 – De Grauwe  Chapter 19 - Baldwin |
| 14 | D. Siena | The reponse of European Institutions - Conventional and Unconventional Monetary Policy | Slides  Chapter 9 – De Grauwe |
| 15 | D. Siena | Fiscal Policy and the Stability and Growth Pact | Slides  Chapter 19 - Baldwin |
| 16 | D. Siena | Review | Slides |