

### Exam Cover

|          |                               |
|----------|-------------------------------|
| Subject  | European Economic Policy      |
| Examiner | Prof. Frank Westermann, Ph.D. |
| Date     | 26.07.2022                    |

### Student

(Please fill in legibly in block letters!)

|                       |  |
|-----------------------|--|
| Study program         |  |
| Last name, first name |  |
| Matriculation number  |  |

### Points obtained

\*No questions should be omitted\*

| A1 | A2 | A3 | A4 | A5 |
|----|----|----|----|----|
|    |    |    |    |    |

### Grading

|                    |  |
|--------------------|--|
| Total score        |  |
| Module grade       |  |
| Examiner signature |  |

**The chair of International Economic Policy wishes you good  
luck!**

**Do not use: Pencil, erasable pen, red ink!**

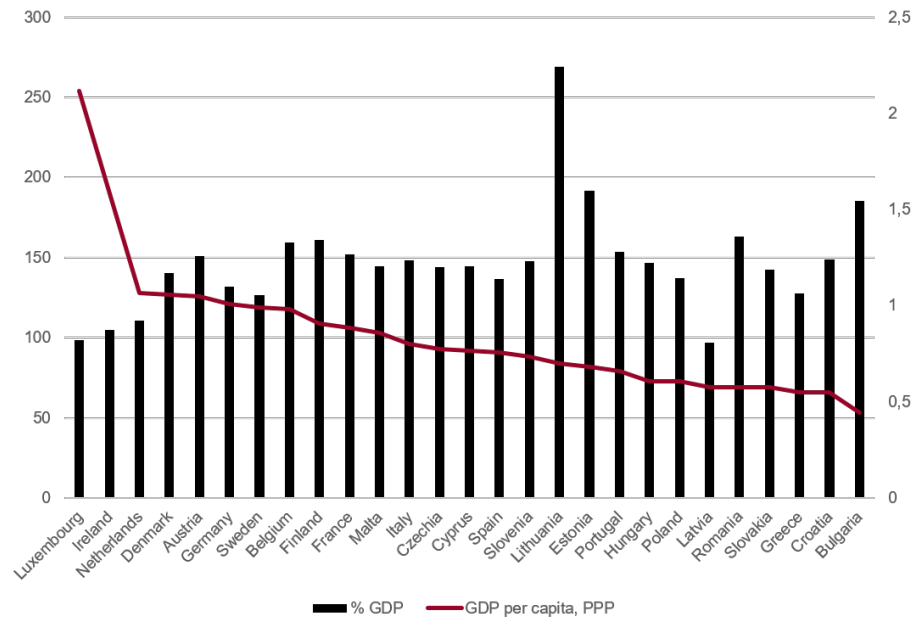
**In all assignments: Please label graphs and explain notation!**

**Please also use the reverse side for the solutions!**

**Question 1: Institutions, budget and decision making (10 points)**

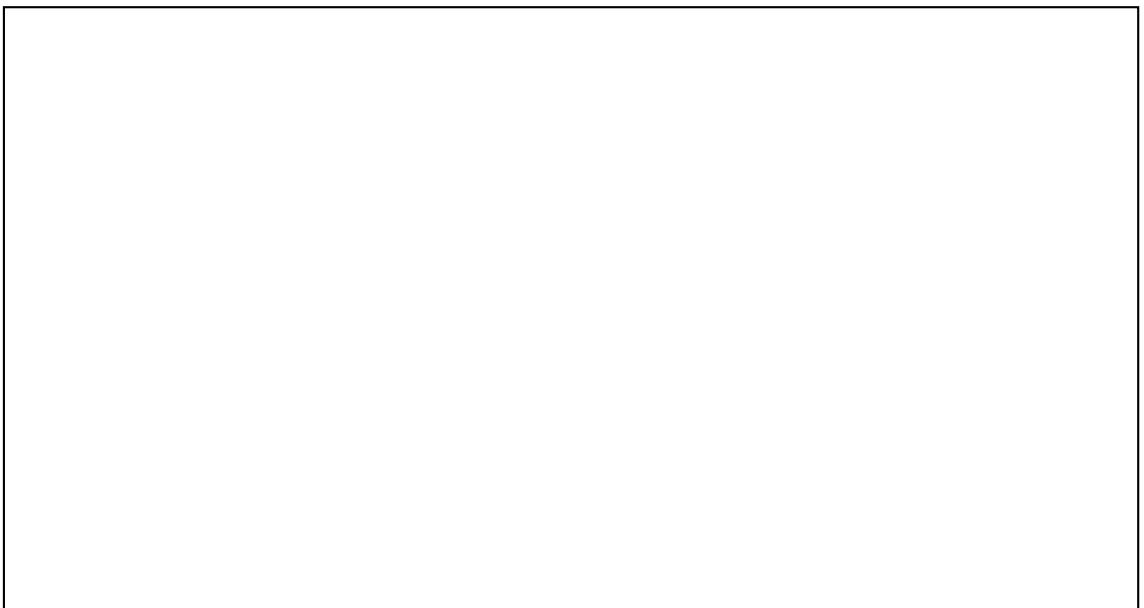
- (a) (6 points) State any two of the five criteria from the fiscal federalism theory. Note whether they favor centralization or decentralization.

- (b) (4 points) Look at the diagram (next page). Is the statement “The EU contributions are progressive” correct? Why?

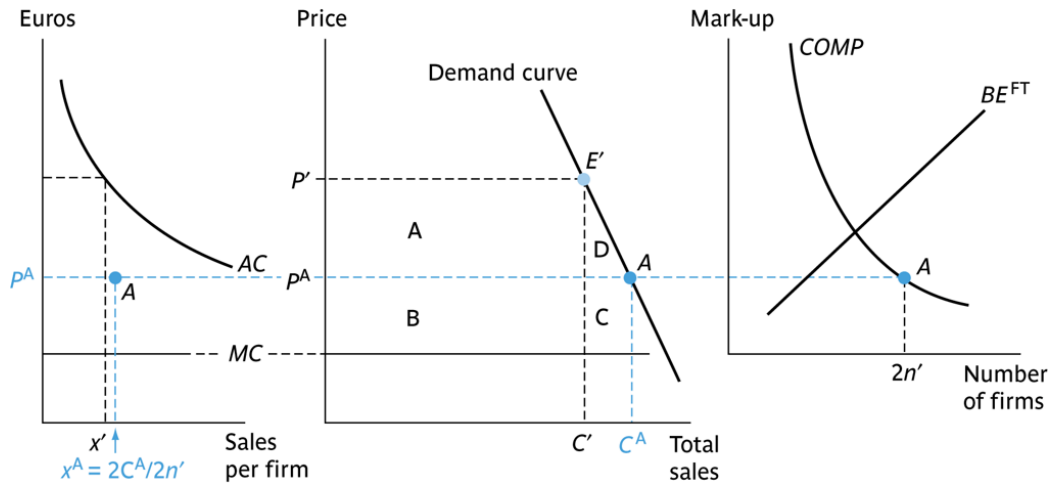


**Question 2: Trade policy/preferential liberalization (12 points)**

- (a) (6 points) State the effects of a unilateral preferential liberalization for the Partner country and the Rest of the World (Foreign).



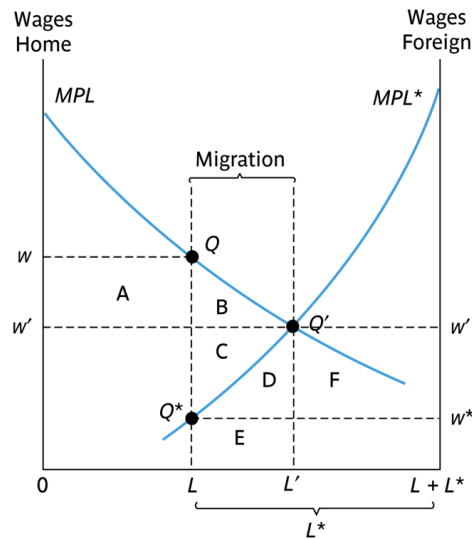
- (b) (6 points) Assume an industry with increasing returns to scale. If both Home and Foreign provide state aid, the long-term equilibrium after the liberalization will be at point A and not at the intersection of  $COMP$  and  $BE^{FT}$  curves, so the net welfare effect will be larger. Why is state aid prohibited then?



**Question 3: Labor market/migration (8 points)**

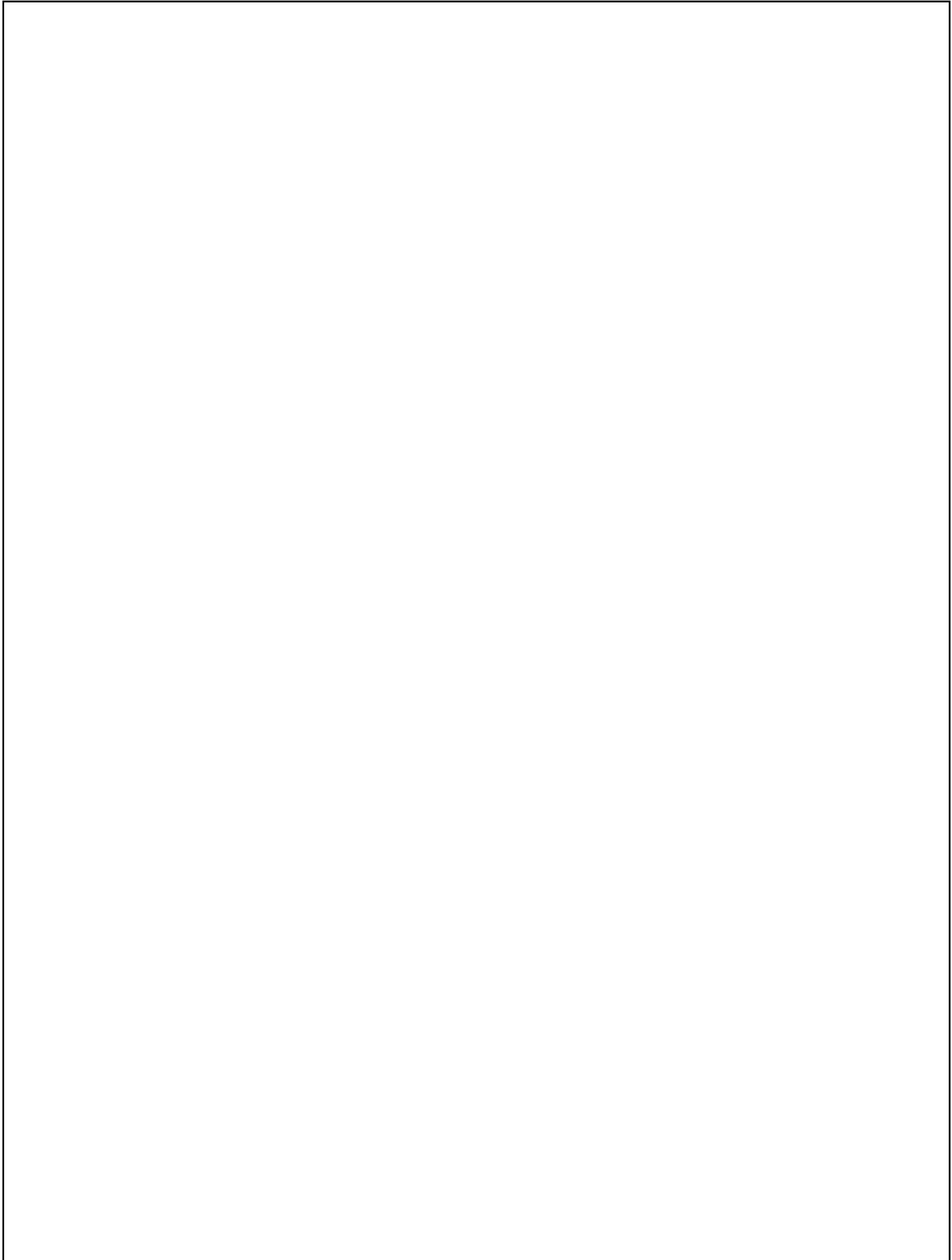
- (a) (4 points) Assume that the total working-age population in a country is 52 mln people. Among them 45 mln are employed, 3 mln are unemployed and 4 mln out of the labor force. What are the unemployment rate and the employment rate equal to?

- (b) (4 points) The following diagram illustrates the simplest theoretical framework for migration analysis. Will the Foreign's workers oppose the liberalization (liberalization = migration allowed)? Use the diagram for your answer.



**Question 4: European monetary union/optimum currency area (20 points)**

- (a) (14 points) Countries A and B are members of a monetary union. Country A is hit by an adverse demand shock. Show with the help of a diagram and explain verbally, how labor mobility (Mundell criterion) can help both countries return to equilibrium. Suggest critique to Mundell criterion.



A large, empty rectangular box with a thin black border, intended for the student's answer to the question above.

(b) (6 points) Explain the goal of the Stability and Growth Pact and the instruments belonging to it.

A large, empty rectangular box with a thin black border, intended for the student's answer to question (b).

**Question 5: Trade integration and common market (10 points)**

- (a) The Treaty of Rome states the aim to achieve the full implementation of the four freedoms: freedom of movement of goods, services, capital and labor. Explain why the free movement of goods was easier to achieve compared to services, capital and labor.