European Economic Policies (E380B)

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B.Sc. in Economics and Business Administration/ B.Sc. in International Economics/ B.Sc. in International Business/ Study tour participants from the University of Adelaide
April 15 – 26, 2019

1 Aims and purpose of the course

This course introduces students to the economic policies carried out by the institutions of the European Union and their background. Students learn how and why economic policies are designed in the world’s largest trading power. In particular, we discuss the design and the economic implications of monetary policies, trade policies, the treatment of multinational enterprises, and competition policies. We will explore the economic theory concepts behind these policies, so our Spring School will offer a unique opportunity to debate challenges of economic policy that the European Union as well as other open economies are currently facing.

We expect that you are familiar with both macro- and microeconomics on an intermediate level, as it is taught, for example, in classes using the textbooks by Olivier Blanchard, *Macroeconomics*, Pearson, and by Hal Varian, *Intermediate Microeconomics: A Modern Approach*, Norton, respectively. We also recommend these books as refreshers, but we will not be able to review material from this level. You should in particular be familiar with open economy macro concepts, the Phillips curve, monopoly and oligopoly, and Nash equilibria. Furthermore, students should have a solid background in economic theory using mathematical concepts.

The course comes in two parts. In the *first part*, we deal with issues of economic integration, and the *second part* deals with the role of multinational firms and competition policies.

2 Readings

There is no single textbook for this course. The first part of the course will follow Richard Baldwin and Charles Wyplosz, *The Economics of European Integration*, 5th ed., McGraw Hill, New York, 2015, to some extent. A recommended reading for competition policies is
Massimo Motta, Competition Policy: Theory and Practice, Cambridge University Press, Cambridge, 2004, although it is already 15 years old. We expect students to have read Chapters 1-4 and 11 in Baldwin and Wyplosz (2015) before they will start the class.

3 Organization

The spring school starts with a visit to the European Central Bank on April 15. The lecture times for the two parts are as follows:

Part I: Economic integration (Kohler)

- Lectures: April 16, April 17, April 18, 9:00 – 10:30, 10:45 – 12:15, 14:00 – 15:30.
- Revision class: April 19: 9:00 - 10:30, afternoon: preparation time.
- 1st test (25%): April 20, 9:00 – 10:30.

Part II: Multinational firms and competition policy (Stähler)

- Lectures: April 22, 9:00 – 10:30, 10:45 – 12:15, 14:00 – 15:30, April 23, 9:00 – 10:30, April 24, 9:00 – 10:30, 10:45 – 12:15, 14:00 – 15:30, April 25, 9:00 – 10:30, 10:45 – 12:15.
- Revision class: April 26: 14:00 – 15:30, April 26, morning: preparation time.
- 2nd test (25%): April 26, 14:00 – 15:30.

4 Outline

- Part I: Economic integration
  - History of European integration: Treaties of deepening and enlarging European integration; institutions and decision making; some empirics of European integration.
  - Monetary integration – The European Monetary Union (EMU): Theoretical considerations on exchange rate systems; history of European monetary integration up to EMS; Theory of optimum currency areas; the Maastricht approach to EMU; the Stability and Growth Pact; successes and failures of EMU.
– The recent crisis of the euro: Where the euro was successful and where it was not; genesis of the sovereign debt crisis within the euro zone; rescue packages and long run remedies; key reform challenges.

– Integrating European goods markets - The Single Market: Gains from trade and effects of tariffs; the economics of preferential liberalization; the EU Customs Union and the EU Single Market Program; industry equilibrium under imperfect competition; monopoly, oligopoly, and monopolistic competition; pro-competitive effects of trade liberalization, and industrial restructuring after the Single Market Program.

– Integrating European labor markets: The role of labor market policies for goods market integration; gains from international migration; wage and unemployment effects of international migration.

– The Common Agricultural Policy (CAP): The economic logic and efficiency cost of a price support mechanism; reforms of the CAP.

• Part II: Multinational enterprises and competition policies

  – Preliminaries: How to model oligopolistic competition among heterogeneous firms.

  – The role of multinational enterprises in Europe and the world: empirical background; foreign direct investment (FDI) as a driver of globalization; greenfield investment versus merger and acquisition; two models of horizontal and vertical FDI.

  – Tax planning incentives of multinational firms: residence-based taxation; transfer pricing and transfer pricing documentation rules; location of intangible assets and controlled foreign corporation (CFC) rules; internal credit market and thin-capitalization rules.

  – Definition, objectives, history and legal basis of European competition policies: from the European Coal and Steel Community to DG Competition. An appetizer: a simple economic model of most-favored-customer clauses (MFC).

  – Market power: why do we care? Deadweight loss of a non-discriminating monopolist; innovation and dynamic (in-)efficiency of a monopolist.

  – Merger control: coordination of international merger policies; horizontal mergers; the merger paradox; mergers with productivity gains; competition with complements; vertical mergers; double marginalization; resale price maintenance (RPM); two-part tariffs.
- Cartelization and horizontal agreements: when is collusion more likely? Participation constraints; dynamic IO games; semi-collusion; block exemptions for R&D cooperation.
- Abuse of a dominant market position: the Coase Conjecture; exclusive dealing; entry deterrence and predatory pricing; the multi-product monopolist.
- State aid: Boeing versus Airbus; the Brander-Spencer model.
- Challenges: Network externalities and platform competition; net neutrality; machine learning and pricing.

5 Assessment

Students from the University of Tübingen can earn 6 ECTS. There are two tests each worth 25%, and these tests are in-class exams and will cover the material of the preceding week. Students will be advised about the structure of the test at the beginning of the course. Furthermore, students have to write an essay of a maximum of 3000 words that is worth 50%. Potential topics will be announced at the end of the course. In this essay, students should demonstrate their ability to analyze aspects of European Economic Policies using the analytical tools they have learned in class. This essay is due on May 30, 24:00, Tübingen time, and has to submitted electronically in pdf format to frank.staehler@uni-tuebingen.de.

6 Registration

Registration for study tour participants is organized by the University of Adelaide. Students from the University of Tübingen have to apply via Campus.

7 Contact details

Please contact us by email for an appointment. Wilhelm Kohler: wilhelm.kohler@uni-tuebingen.de, Frank Stähler: frank.staehler@uni-tuebingen.de, School of Business and Economics, University of Tübingen.