

Université d'Orléans
MASTERS IN EUROPEAN MANAGEMENT

European Economic Environment

Lecturer:

Dr Jean-Baptiste DESQUILBET

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Course outline:

The course will analyse the microeconomic foundations of European trade integration:

- provide a framework for analysing the essential economics of preferential liberalisation
- present the economic logic of how European integration can lead to fewer, larger firms operating at a more efficient scale and facing more effective competition.
- consider policy responses that prohibit unfair subsidy of firms and rules restricting anticompetitive behaviour.
- look at growth effects which operate by changing the rate at which new factors of production – mainly capital – are accumulated
- study the economics of factor market integration, i.e. the linking of capital and labour markets within the European Union.

Textbook:

Richard Baldwin & Charles Wyplosz, *The Economics of European Integration*, McGraw-Hill 2004

The course will follow part II of the textbook: “the Microeconomics of European Integration”, including the following chapters:

4. Essential microeconomic tools
5. The Essential Economics of Preferential Liberalisation
6. Market Size and Scale Economics
7. Growth Effects and Factor Market Integration

Related websites:

<http://hei.unige.ch/%7Ebaldwin/PapersBooks/BW/BW.html>

http://highered.mcgraw-hill.com/sites/0077103947/information_center_view0/

Useful websites (introduction to economics):

<http://ingrimayne.saintjoe.edu/econ/TOC.html>

<http://william-king.www.drexel.edu/top/prin/txt/EcoToC.html>

Useful websites (European Union):

http://europa.eu.int/index_en.htm

more specifically (European Commission policy areas):

- Customs Union: http://europa.eu.int/comm/taxation_customs/customs/index_en.htm
- External trade policy: http://europa.eu.int/comm/trade/index_en.htm
- Competition: http://europa.eu.int/comm/competition/index_en.html
- Internal Market: http://europa.eu.int/comm/internal_market/index_en.htm
- Development: http://europa.eu.int/comm/development/index_en.htm

Course assessment:

- Written examination (50%)
- Presentation (50%) on one particular aspect of the economics of European integration, in relationship with one of the course topics (see the course outline).

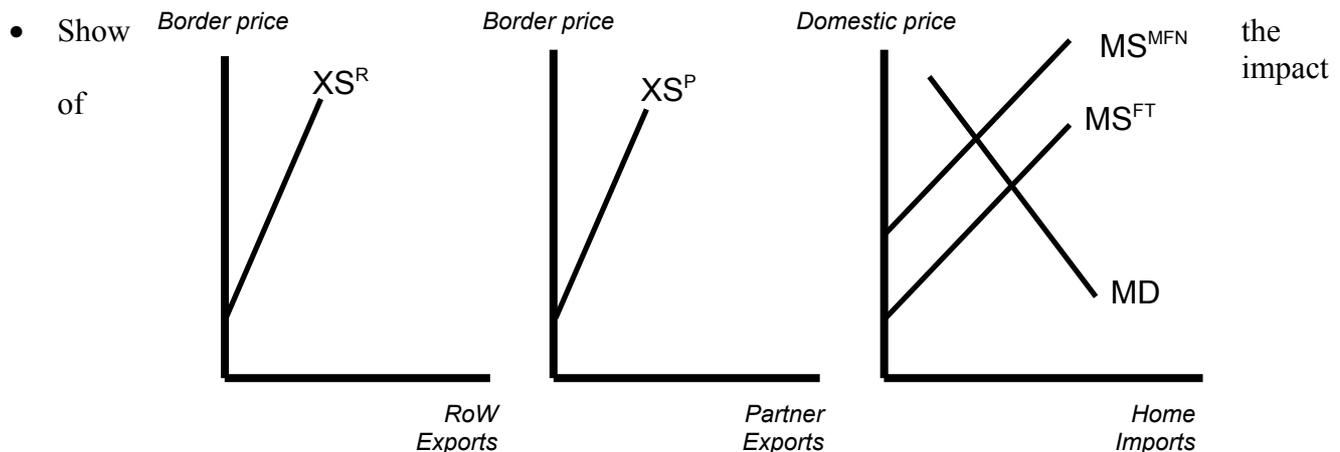
Université d'Orléans
D.U. IN EUROPEAN MANAGEMENT
2005-2006

European Economic Environment
FINAL EXAM

Lecturer: Jean-Baptiste Desquilbet

2 hours – printed documents allowed

1- Using the figure below, which summarizes the NIC-NIR model of preferential liberalization with symmetric countries, including the initial MFN tariff :



“Partner” and “Home” forming a customs union that keeps the initial tariff constant. Discuss carefully which economic “agents” (consumers, firms, governments, countries...) gain or lose.

- Assume that “Partner” and “Home” form a customs union and lower their common external tariff to the point where the new border price facing RoW exporters is the same as initially. Show that “Partner” and “Home” gain while “RoW” does not lose from this CU-with-CET-reduction scheme.
- Using the economic logic of this model, explain why most trade liberalizations are reciprocal rather than unilateral.

2- Using the analytical tools introduced to study the “Market size and scale effects”, comment on the following statement about the European Commission competition policy. Draw any figure you think appropriate.

“By giving certain firms or products favoured treatment to the detriment of other firms or products, state aid seriously disrupts normal competitive forces. Neither the beneficiaries of state aid nor their competitors prosper in the long term. Very often, all public subsidies achieve is to delay inevitable restructuring operations without helping the recipient actually to return to competitiveness. Unsubsidised firms who must compete with those receiving public support may ultimately run into difficulties, causing loss of competitiveness and endangering the jobs of their employees. Ultimately, then, the entire market will suffer from state aid, and the general competitiveness of the European economy is imperilled.

State aid that distorts competition in the Common Market is prohibited by the EC Treaty.”

Source: http://europa.eu.int/comm/competition/state_aid/overview/

Université d'Orléans
MASTER IN EUROPEAN MANAGEMENT
2004-2005

European Economic Environment
FINAL EXAM

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2 hours – documents allowed

1- Using the “essential economics of preferential liberalization”, comment on the following press release from the European Commission. You will show the effects on EU countries, on partner countries that previously benefited from preferential trade agreements (e.g. Mediterranean countries) and on the Rest of the World, especially China and India, who are said to have dramatically low production costs. Draw any figure you think appropriate.

Brussels, 13th December 2004

The EU to lift textiles quotas from 1 January 2005

Today the Council adopted a Commission proposal for a Regulation that will eliminate from 1st January 2005 all quantitative restrictions on the import of textile and clothing products from WTO countries. This Regulation implements one of the key commitments taken at the end of the last WTO Trade Round (“Uruguay Round”) in 1994. “This definitively seals the disappearance of textiles quotas that have been in place for four decades and there is no going back”, declared EU Trade Commissioner Peter Mandelson. “The challenge now for the textiles industry world-wide is to compete in the new environment. But policy makers also need to ensure that the transition is as smooth as possible and managed in a way that does not wipe out the textiles industries of weak and vulnerable developing countries. They too should be able to benefit from liberalisation in due course”, he added.

2- Using the analytical tools introduced to study the “Market size and scale effects”, comment on the following overview of the European competition policy. You will especially show the expected benefits of liberalization, and discuss the pros and cons of state aid. Draw any figure you think appropriate.

European competition policy : a brief overview - Liberalisation

The term liberalisation refers to Article 3 of the EU Treaty which states that the “activities of the Community shall include (...) g) a system ensuring that competition in the internal market is not distorted”. For this purpose, Article 86(3) of the EU Treaty entrusts the Commission with a specific surveillance duty “in the case of public undertakings and undertakings to which Member States grant special or exclusive rights”. [...] Since 1980 the Commission adopted directives under Article 86(3), on the one hand, to render transparent the financial relations between the Member States and their public companies and, on the other, to liberalise the electronic communications markets. These directives specify the obligations of the Member States resulting from the Treaty in the relevant area. The directives do, in principle, not create new substantive obligations. Where Member States do not comply with such directives, the Commission initiates infringement procedure under Article 226 of the EU Treaty against the relevant Member States.

(source: <http://europa.eu.int/comm/competition/liberalization/overview/>)