Centre d´Economie de la Sorbonne
CES
Université Paris 1 - Panthéon-Sorbonne
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European Integration 2
Final exam, April 2013
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Answer carefully to ALL the following questions/exercises. Do not write more than the required number of words. Explanations accompanying graphs are mandatory: graphs without explanations won't be accepted.

Short questions (max 100 words each) - 3 points

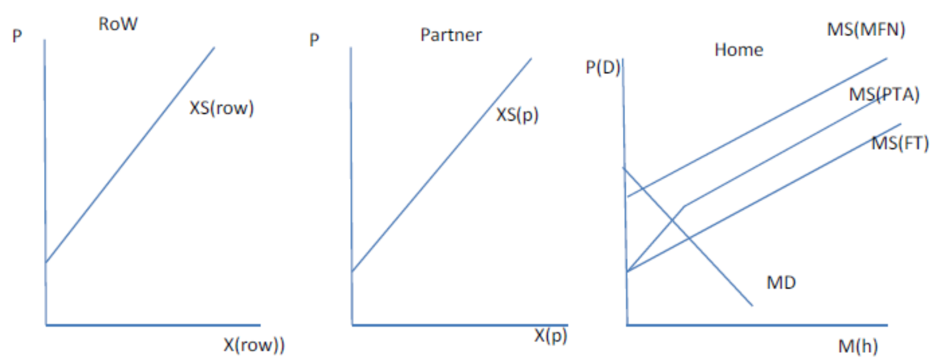
1. What are the "automatic stabilisers? Explain.
2. What is the "Stability Growth Pact" (SGP)? Discuss its main elements.
3. What are the main (and general) differences between the 2004 "European Consitution" and the "Treaty of Lisbon", eventually ratified by all countries?

Questions (max 200 words each) – 5 points

1. The EU structure: pre and post Lisbon
   (a) Discuss the 3-pillar structure of the Maastricht Treaty.
   (b) Discuss how the 3-pillar structure has been modified by the Treaty of Lisbon.
2. The public debt crisis in Europe:
   (a) Explain how the financial crisis has evolved into the sovereing debt crisis in Europe.
   (b) Short term and long term policy responses to the crisis. Explain.

Exercise 1: the MS/MD diagram - 6 points

Consider the MS/MD framework studied in class. Consider the particular situation represented in the graph, where country Home imports from both countries RoW and Partner. The schedule MD represents Home import demand curve; MS(FT) represents the import supply curve with free trade; XS(row) and XS(p) are the export supply curve for country RoW and Partner, respectively; MS (MFN) is the MS curve when exporters are subject to a MFN tariff, T; MS(PTA) is the MS curve when Home has a PTA agreement with country Partner only.



Describe the different configurations represented in the graph. More in particular:

1. Focus on the free trade equilibrium:
   (a) Explain how the MS(FT) curve is derived.
   (b) Draw a graph reproducing the free trade situation. Do not forget to include the quilibrium border price for country RoW and Partner, the domestic equilibrium price for H and equilibrium imported and exported quantities. Explain.
2. Focus on the MFN equilibrium:
   (a) Explain how the MS(MFN) curve is derived.
   (b) Draw a separate graph reproducing the MFN situation. Do not forget to include the quilibrium border price for country RoW and Partner, the domestic equilibrium price for H and equilibrium imported or exported quantities for each country. Explain.
3. Focus on the PTA equilibrium:
   (a) Explain how the MS(PTA) curve is derived and the implications for the equilibrium in the case represented in the graph.
   (b) Draw a separate graph reproducing the PTA situation. Do not forget to include the quilibrium border price for country RoW and Partner, the domestic equilibrium price for H and equilibrium imported or exported quantities for each country. Explain.
   (c) Based on your graph, discuss the switching effect and the trade creation effect.

Exercise 2: collusion in the BE-COMP diagram – 6 points

Consider now the BE-COMP framework studied in class for the case of *perfect collusion*. Answer to the following questions.

1. Construct the full BE-COMP benchmark framework. Draw the COMP curve and the BE curve in the usual diagram (number of firms on the x-axis and mark-up on the y-axis) . Include the graph with home demand. Assume that firms produce with a constant marginal cost (MC) and a fixed cost of production (F). Draw the marginal cost curve (MC) and the average cost curve (AC) in a diagram (sales per firm on the horizontal-axis and euros on the vertical-axis). Derive the equilibrium E in the Graph. Indicate the mark-up μ, the equilibrium price p, equilibrium number of firms n, consumption C and sales of an individual firm x.

2. Use the graph to analyze the impact of the introduction of a "no-trade-to-free-trade" integration with a Parner that is identical to Home.

    (a) Explain carefully the dynamics towards the new equilibrium on each graph. Call the new equilibrium variables: $E_1, \mu_1, p_1, C_1, x_1$.

    (b) What are (if any) the differences from the short and the long term equilibrium following the integration?

3. Analyze the welfare effects of "no-trade-to-free-trade" integration: compare the pre-integration with the post integration situation.