

Examination: (1557) European Integration Wintersemester: 2002/2003
Examiner: Dr. G. Groh / Schwödlauer
The following aids can be used: None
Hint: 85 of the 100 points attainable are regarded as the maximum number one can reach in the time available.

Examination questions:

1. (18 points: (a): 10, (b): 5, (c): 3)

(a) What are the main characteristics of

- a free trade area
- a customs union and
- a common market?

(b) What is meant by “trade deflection”? In which of the integration schemes mentioned above does it occur and how can this problem be solved?

(c) Which treaties have been of especial importance for the creation of a *Common Market* in Europe?

2. (20 points: (a): 12, (b): 3, (c): 5)

(a) What are the main tasks of the European Commission?

(b) How is this body composed and to whom is it responsible?

(c) Who are the members of the European Council (not Council of Ministers) and what is the major task of this body?

3. (12 points: (a): 9, (b): 3)

(a) Which additional welfare effect can occur in a large customs union in comparison to a small one? Explain this effect graphically as well as intuitively.

(b) Does the analysis of (a) necessarily lead to a negative assessment of the EU with regard to its role on the world market?

4. (20 points: (a): 17, (b): 3)

(a) Explain the problems that can arise after the formation of a monetary union between a high-inflation and a low-inflation country with the help of the two-country version of the Barro-Gordon model.

(b) How is the European Central Bank composed and which of its characteristics are intended to avoid problems as described in (a)?

See overleaf

5. (15 points: (a): 8, (b): 3, (c): 4)

- (a) Demonstrate graphically the system of “intervention buying” applied by the Common Agricultural Policy in the case of surplus production. Which welfare consequences do result from this for consumers, producers, and the EU-authorities and what is the net effect?
- (b) Why is it necessary to fix a “minimum import price” even in the above situation of an excess supply and which kind of tariff is required in this regard?
- (c) Which are the main instruments that have been used in conjunction with the “MacSharry-Reform” (and later the “Agenda 2000”) to reduce surplus production in agriculture?

6. (15 points: (a): 6, (b): 2, (c): 4, (d): 3)

- (a) Explain briefly the difference between the “destination principle” and the “origin principle” in conjunction with the taxation of internationally traded goods (take, e.g., the value-added tax).
- (b) Which are the corresponding consequences for production efficiency of these two principles?
- (c) What is meant by the “restricted origin principle” and which condition is required for its proper functioning? Which advantage does it have for economic unions in comparison to a general application of the “destination principle”?
- (d) Describe roughly the current EU-regulation concerning the value-added tax.