

OLLSCOIL NA hÉIREANN
THE NATIONAL UNIVERSITY OF IRELAND, GALWAY

SUMMER EXAMINATION 2000

EUROPEAN ECONOMY (EC353)
B.A. & B.Comm. Degree Examination

Professor J. Round
Professor M. P. Cuddy
Ms. Eithne Murphy

Time allowed: 2 hours.

All Sections must be answered.

Section A

Answer Five of the following questions. Each Question is worth 10 points.

- 1 It is asserted that when markets are perfectly competitive, any policy that interferes with marginal production and consumption decisions creates inefficiency.
Show and explain the above with regard to any type of interventionist trade policy.
- 2 Explain the concepts of trade creation and trade diversion as they arise in customs union theory. Show and explain how the efficiency effects of a trade diverting customs union are ambiguous.
- 3 In a perfectly competitive market, explain the incremental efficiency gains associated with progressing from a customs union to a common market.
- 4 Why does the logic of a common market require **positive** integration measures in addition to negative integration measures.

Note: By positive integration measures is meant the harmonisation of other policies that are not directly linked to trade and resource mobility.
- 5 Explain intra-industry trade and the conditions likely to give rise to such trade. What are the sources of gain from such trade?
- 6 What are agglomeration economies. If they exist what are their spatial implications if resources are freely mobile in a common market.
- 7 Foreign direct investment is a form of capital flow. How does it differ to other forms of capital flows?

Section B

Answer TWO of the following questions. Each Question is worth 50 points.

- 1 (i) Explain the measures by which the Single European Act (SEA) completed the internal market.

 (ii) What institutional and legal developments have occurred over the history of the European Community that have added to, or detracted from, its democratic accountability.

- 2 An ideal government is one that has, inter-alia, the following characteristics: (i) its decision making process is efficient; (ii) it is accountable to the electorate and; (iii) it delivers high quality outcomes in terms of the type of society that it fosters.

 Discuss how the principle of subsidiarity can be utilised to deliver each of the above.

- 3 (i) Explain what is meant by regional development in a strictly economic sense. How can regional policy aid such a process?

 (ii) Regional policy in the European Community underwent major reform in 1988/89. What were these reforms and why might they have made regional spending more effective?

 (iii) Priorities for regional spending in Ireland are different now compared to 1989. (This is obvious from the thrust of the National Development Plan). The differences are reflected in the spatial emphasis and the sectors targeted. Explain the rationale behind the new priorities.

- 4 (i) Explain why flexible prices are supposed to enhance the case for monetary union.

 (ii) Explain the economic rationale behind an independent European Central Bank.

 (iii) The economist Paul De Grauwe has made the claim that the monetary and fiscal policies that governments had to pursue in order to qualify for membership of European Monetary Union (EMU) were responsible for the recession and high unemployment in Europe in the 1990s. Explain the economic logic behind his assertion.

5

(i) Ideologically, proponents and opponents of regulated capitalism differ in their view on the efficiency of markets and in their notions of social justice. Discuss the bases for both perspectives.

(ii) How do you think that a revolutionary measure such as a basic income for all adults could satisfy society's demand for efficiency, equity, quality of life and social cohesion?