

Syllabus of Record

Program: CET Prague

Course Code / Title: (PR/ECON 320) European Economic and Monetary Integration

Total Hours: 45

Recommended Credits: 3

Primary Discipline / Suggested Cross Listings: Economics / International Business, Finance, International Relations

Language of Instruction: English

Prerequisites/Requirements: Intermediate macroeconomics and statistics or econometrics, ability to operate statistical software (Stata, R, Python, Matlab, SPSS or other). The instructor can assist with calculations in R or Gretl; other statistical software users need to ensure they can wrangle data and estimate econometric models independently. CET does not provide any statistical software licenses.

Description

The course examines issues related to the incomplete economic integration of the European Union (EU). The flaws of the current institutional design are discussed based on the historical context of European Integration resulting in the current Maastricht Paradigm, principles of fiat money, and the relationship between fiscal and monetary policy. Primary analytical tools used in the course are cross-sectional, panel data, or time series analysis to support the findings with data driven evidence. In addition, some assignments involve data wrangling or descriptive statistics. More advanced methods (e.g., VAR models) might be employed voluntarily by more advanced students.

Objectives

This course aims to develop students' understanding of the contemporary eurozone institutional architecture based on the Maastricht Paradigm; its roots stemming from the breakup of its predecessor, the European Monetary system; and flaws that cause inherent instability of the unified yet heterogeneous common monetary area.

By the end of this course, students will be able to:

- Critically evaluate the functioning of the monetary union in its current form, as well as alternatives to the EU monetary policy architecture
- Discuss the context of selected financial and monetary crises under different monetary policy arrangements
- Critically assess the risks of incomplete integration in the areas of fiscal policy, capital markets, and bank regulation on the stability of the European Monetary Union (EMU)
- Discuss ways to enhance the robustness of the EMU
- Identify, evaluate and interpret recommendations for structural reforms in select EU countries
- Apply quantitative methods in data analysis, including data wrangling

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Course Requirements

This course combines the explanatory part (lecture) and a follow-up interactive seminar, where discussions occur, and individual or team assignments are given. Students are expected to attend each class and field study course component, as outlined in the CET Attendance Policy. Readings are approximately 20-50 pages weekly. Students are expected to complete all the required readings before each class to participate fully in the discussions and engage in assignment-solving. Graded assignments include:

- Weekly assignments: Students seek out data or information on the topics discussed, interpret it and, in selected cases, employ a cross-sectional, panel data or time series analysis to support the findings with data-driven evidence. For some assignments, data wrangling or descriptive statistics will also be employed.
- Term paper: The topic should be related to the European Monetary Integration and issues that affect its stability (e.g., structural or financial sector issues). It should contain at least two pages of literature review and apply an appropriate econometric model to verify the literature findings. Depending on the topic, the modelling shall be based on a cross-sectional data analysis, panel data analysis, or a time series analysis. More advanced methods (e.g., VAR models) might be employed voluntarily by more advanced students. The model setup shall be properly discussed and the outcomes shall be properly interpreted.
- Simulation of the European Council: Students will negotiate about the fiscal integration of the eurozone countries. The students first prepare a position of the country they represent (including economic analysis on why they take such a position) and then try to reach an agreement on the fiscal integration with representatives of the other eurozone countries.
- Mid-term exam: Closed-book exam containing open questions based on the first part of the course.
- Final exam: Consists of closed-book and open-book parts. In the open-book part of the exam, the students need to find their data and other information to answer the questions.

Grading

The final grade is determined as follows:

Participation	15%
Weekly assignments (10 @ 1% each)	10%
Term paper employing statistical analysis	20%
Simulation of the European Council (incl. material preparation)	20%
Mid-term exam	10%
Final exam	25%

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Readings

Selected chapters from:

Baldwin, R., & Wyplosz, C. (2022). EBOOK The Economics of European Integration 7e. McGraw Hill.

De Grauwe, P. (2022). Economics of monetary union. Oxford University Press.

De Haan, J., Schoemaker, D., & Wiertz, P. (2020). Financial markets and institutions: A European perspective. Cambridge University Press.

Eichengreen, B. (2018). The political economy of European monetary unification. Routledge.

Freixas, X., Hartmann, P., & Mayer, C. P. (Eds.). (2008). Handbook of European financial markets and institutions. Oxford: Oxford University Press.

Additional readings are provided in the class from non-scientific journals (e.g. The Economist), economics-related blogs (e.g. VoxEU) and sound international organizations (e.g. OECD).

Outline of Course Content

The first part of the course provides a theoretical underpinning of the course, discussing concepts of money, monetary policy, monetary integration; and data wrangling revision for the term paper.

Part 1: Economic policies in historical perspective

Topic 1: Introduction

- European integration, motivation, challenges and historical development

Topic 2: Money and monetary policy

- Fiat money and other monetary systems
- Conventional monetary policy
- Unconventional monetary policy

Topic 3: Monetary unions of the past

- OCA theory and reality
- Pros and cons of a common currency
- Mundell-Flemming Trilemma
- Fragility of monetary unions

Topic 4: Data analysis for the term paper

- Data wrangling revision
- OLS, cross-sectional, panel data and time series analysis revision

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The second part of the course discusses the contemporary eurozone institutional design stemming from the Maastricht Treaty (Maastricht Paradigm), including the existing imperfections, their repercussions, and the discussion on why those institutional flaws arose. Measures on how the eurozone has increased its robustness are also addressed.

Part 2: European monetary integration

Topic 5: Monetary Integration in Europe 1945 - 1993

- Bretton-Woods monetary system, Snake in the Tunnel
- European Monetary System and its breakup

Topic 6: Maastricht paradigm and the contemporary institutional architecture of the eurozone

- German or French-like ECB?
- Maastricht Criteria
- Common monetary policy and individual fiscal policies
- No-bailout rule
- Stability and Growth Pact and its enforcement

Topic 7: European Sovereign Debt Crisis as a failure of the eurozone

- Irreversibly fixed exchange rates and eurozone imbalances
- Competitiveness and structural issues of the selected eurozone economies

The third part of the course discusses the reforms that have been adopted in the context of the existing Maastricht Paradigm.

Part 3: Institutional and structural reforms of the eurozone

Topic 8: Structural reforms and persisting competitiveness issues in the selected eurozone countries

- Italy
- Spain
- Greece

Topic 9: Changed paradigm of the European Central Bank (ECB) and its effects on the stability of the eurozone

- Unconventional monetary policies and its effects on eurozone stability

Topic 10: Reforms of the eurozone institutional architecture and its effects on eurozone stability

- Stability and Growth Pact reforms
- European Stability Mechanism
- Banking Union
- Capital Markets Union