Please find attached reading lists for this term’s tutorials on the Economics of the EU. Readings that are especially recommended are marked with an asterisk, all other references appear in alphabetical order.

We will alternate between tutorials and classes. For the tutorial I expect you to write an essay (to be handed in at the tute itself) and for the classes I expect you to prepare answers to the questions given.

Tutorials will take place in my LMH office: flat 2, 1 Fyfield Road. If you walk along Norham Gardens towards LMH, 1 Fyfield Road is just on the corner about 40 yards before the LMH porters’ lodge. It is a large house with two front doors. Come to the left hand front door and ring the top left bell.

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Week One: Tutorial

Bretton Woods and the ERM

Reading:

There has been a number of different exchange rate regimes in the OECD since World War II, beginning with the Bretton Woods agreement. In fact, exchange rate and balance of payments issues have occupied a large proportion of policymakers’ time and many attempts have been made to stabilize foreign exchange markets. Krugman and Obstfeld (2003) discuss the history of the various regimes. Skidelsky (2000) provides an excellent historical background. Krugman (1979 and 1989) gives a good theoretical overview of the case for stable exchange rates, while de Grauwe (2000) and El-Agraa (2001) detail the European experience.

Essay:

‘Why did the Bretton Woods system break down? Did the ERM of the EMS fail for the same reasons?’

References:


Week Two: Class

Growth

Reading:

The rapid growth in the Europe during the Golden Age of 1948 to 1973 was followed by a prolonged slowdown in the 1970s and 1980s. Crafts and Toniolo (1996) and Maddison (1987 or 1991) provide the classic growth-accounting based studies of the Golden Age and subsequent slowdown. Bruno and Sachs (1985) is a standard account of the impact of stagflation on the OECD. See also my OECD lectures on this topic:
http://www.nuff.ox.ac.uk/Users/Cameron/lmh/lectures/oecd.html

Questions for discussion:

1. How important were the following factors in accounting for the rapid pre-1973 ‘Golden Age’ European growth?
   i. The Marshall Plan.
   ii. Labour supply and structural change.
   iii. High investment.
   iv. Technological transfer and catch-up.
   v. The demand-side and export-led growth.
2. How would you account for the productivity slowdown in Europe since the early seventies?

References:


* Crafts, N. and Toniolo, G. (1996) *Economic Growth in Europe Since 1945* (CUP: Cambridge) especially chapters 1 (Crafts & Toniolo), 2 (Eichengreen), 5 (Boltho) and 6 (Bean and Crafts).


or


Week Three: Tutorial

Unemployment

Reading:

After the first oil shock, unemployment rose dramatically across the OECD and has stayed high subsequently. Europe has suffered particularly badly compared with the USA, but even in countries that have succeeded in reducing unemployment there remains a relatively high level of non-employment among working age men (Netherlands, UK). The standard interpretation of the rise in unemployment is that it is due to the accumulation of labour market rigidities (see Siebert, 1997, with Nickell, 1997, giving a more nuanced account). Oswald et al. (1998) discuss some interesting implications of oil shocks.

Essay:

‘Why did unemployment rise after 1973 in the OECD as a whole, and to such differing degrees in different countries?’

References:


Week Four: Class

Inflation

Reading:

Inflation, which had been fairly subdued in the 1950s and 1960s, also became a major preoccupation of OECD and European governments in the 1970s, with the breakdown of the Phillips Curve. Oswald et al. (1998) and Bruno and Sachs (1985) discuss the issues thoroughly and Bernanke et al. (1999) detail the emergence of independent central banking as a response to the inflation of the 1970s and 1980s.

Questions for discussion:

1. To what extent was the inflation of the 1970s and the disinflation of the 1980s explained by trends in oil prices?
2. What are the other possible explanations?
3. To what extent did the experience of inflation differ across the OECD in the 1970s and 1980s?
4. How was monetarism implemented?
5. Was monetarism successful?
6. Why do central banks now appear to prefer inflation targeting to monetary targeting?

References as for week 3, plus:


Week Five: Tutorial

Inequality

Reading:

There are three major explanations of the rise in inequality across the OECD and Europe since the 1970s: trade, technology, and institutions. Atkinson (1999) provides a good account of the main trends, while Freeman (1995) and Wood (1995) provide contrasting explanations. DiNardo and Pischke (1997) provide a skeptical view of technology, while many of the other papers cited below are supportive.

Essay:

‘Is the rise in European unemployment the counterpart of the rise in US inequality?’

References:


Week Six: Class

Customs Unions and Regionalism

Readings:

For much of the postwar period, the GATT and WTO focussed on multilateral trade arrangements. Recently, there has been more emphasis on bilateral trade arrangements. Wonnacot and Wonnacot (1981) is the classic reference on why unilateral tariff reduction is such a great policy. It is worth reading about the effects of EU integration and NAFTA to understand the economic processes as work.

Questions for discussion:

1. How does a customs union differ from a free trade area?
2. What is trade creation?
3. What is trade diversion and trade deflection?
4. Under what conditions will trade creation outweigh trade diversion?
5. Are the arguments for free trade in capital the same as those for free trade in goods?
6. Is regionalism a threat to world trade efficiency?

References:


Week Seven: Tutorial

Internal and External Balance with floating and fixed exchange rates

Readings:

The Mundell-Fleming model and the Salter-Swan model are the workhorse models for thinking about internal and external balance, and are well described in many of the references. Krugman (1992) is a great reference for the reminder that it is important to always remember the national income accounting identity and also links the issue to the great debate between Ohlin and Keynes on the effect on transfers between countries on trade balances. It is well worth refreshing your memory on such important, but basic, topics as the definition of the current and capital accounts, and the relationship between national saving and the external balance.

Essay:

Starting from a position of current account deficit is a devaluation necessary or sufficient in order to achieve balance on the current account? Is current account balance desirable?

References:


Week Eight: Class

Floating Exchange Rate vs Exchange Rate Management

Readings:

Policymakers often claim to dislike the volatility of floating exchange rates. But why are they so volatile? The standard model is due to Dornbusch and can be found in most of the readings. The model draws upon both the theory of Purchasing Power Parity and the theory of Interest Parity. European political leaders have been obsessed by exchange rate stability since the breakup of the Bretton Woods system. With the EMU project having finally led to a single currency, there is now great pressure on the UK to join. De Grauwe (2000) is a great introduction to the issues, while HMT (1997) gives a clear account of the five tests. Forder and Huhne (2001) is a chatty introduction. See also my OECD lecture on this topic: http://www.nuff.ox.ac.uk/Users/Cameron/lmh/lectures/oecd.html

Questions for discussion:

1. Describe and assess the theory of Purchasing Power Parity.
2. Describe and assess the theory of Interest Parity and the Fisher effect.
3. Describe and assess the Dornbusch overshooting model.
4. Does volatility matter?
5. Define an optimum currency area
6. Is Europe an optimum currency area?

References: