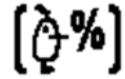


POST-DEGREE IN INTERNATIONAL ECONOMY
MASTER IN ECONOMIC INTERNATIONALIZATION: ECONOMIC INTEGRATION

VNIVERSITAT DE VALÈNCIA



Facultat d'Economia

**PROGRAM OF THE SUBJECT
ECONOMIC INTEGRATION**

COURSE 2018-19

SUBJECT: *MANDATORY*
COURSE: *POST-DEGREE*



**POST-DEGREE IN INTERNATIONAL ECONOMY
MASTER IN ECONOMIC INTERNATIONALIZATION: ECONOMIC INTEGRATION**

Initial information of identification

Name of the subject	Economic Integration
Character	Mandatory
Qualification	Master in Economic Internationalization
Cycle	Post-degree. Module: 43731
Department	Economic Structure: Applied Economy II
Instructors	<i>Cecilio Tamarit (coordinator teacher)</i> Cecilio.Tamarit@uv.es http://www.uv.es/tamac Facultad de Economía Edificio Departamental Oriental Despacho 4E07 Francisco Requena Francisco.requena@uv.es Despacho 4F04

1. Introduction to the subject

Economic integration is a process of increasing interaction of markets of two or more countries. Any process of economic integration supposes a loss of sovereignty or control on some aspect of the economy of the members in order to obtain a benefit ensued from a major interaction. The simplest process of integration is a bilateral agreement of trade of some products. On the basis of that agreement, and depending on the degree of transfer of sovereignty or control of the involved countries, there are other forms of economic integration: customs unions, common markets, economic and monetary unions. Some examples are EMU, NAFTA, MERCOSUR or the polemic “Transatlantic Trade and Investment Partnership”, TTIP). When a great number of countries take part in these agreements, we have the multilateral trade agreements (the GATT Rounds or the recent WTO Trade Facilitation Agreement).

This course uses the economic theory to explain the nature and origin of any process of economic integration as well as the consequences worldwide, for the member partners and for non-members partners. Let us recall an example to illustrate the advantages of using economic theory. After completing the course, the student will be able to evaluate the economic benefits and costs of the exit of the United Kingdom of the European Union (BREXIT), if it finally takes place: What are the consequences for the United Kingdom of choosing the so-called WTO model, Canadian model, Norwegian model, Swiss model or Turkish model? This terminology just simplifies different degrees of economic integration based on the fact that there is a trade-off between “gains from trade” and “loss of sovereignty”. To identify the types of economic integration and to be able to evaluate the expected benefits and costs are both central aims of this course. Given the importance that the EC/SM/EMU has for Spain, the European real and financial integration process will be a motive of recurrent case study; nevertheless, we will also study the globalization and other important regional integration processes.

Economic Integration is a half-term mandatory course, taught in the first semester of the Master in Internationalization. The course has 6 credits based on the ECTS system, divided into theoretical sessions (lectures) and practical sessions (classes), both on-site. In the practical sessions, the students and the class teacher will interact to solve the students’ doubts about the exercises and case studies that they had prepared before the classes.

2. Volume of work

Assistance to lectures:

1,5 hours per week x 6 weeks = 9 hours

3 hours per week x 7 weeks = 21 hours

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Assistance to practical classes of problems and case studies:

2 hours per week x 2 weeks = 4 hours

1, 5 hours per week x 6 weeks = 9 hours

Study for the preparation of on-site lectures and response of the questionnaire of the practical classes:

1 hour x 15 weeks = 60 hours

Study to prepare the exam:

3 hours x 15 weeks = 15 hours

Readings and analysis of the income of the virtual classroom:

4 hours

Realization of the exam:

1 final exam x 2 hours = 2 hours

Assistance to tutorials and/or distance mentoring:

4 hours

Assistance to seminars and conferences:

6 seminars x 1,5 hours = 9 hours

The volume of work has been measured for a semester of 13 weeks.

Activity	Hours/course
Assistance to lectures	30
Assistance to practical classes	13
Study for the preparation of lectures and response of the class questionnaires	17
Study to prepare the exam	60
Reading and analysis of the content of Blogs	15

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Written exam	2
Assistance to tutorials and/ or distance mentoring	4
Seminars and conferences	9
Total hours	150

3. General objectives

Once the course is finished, the student should be able to:

- Understand and analyse the complex processes of economic integration from a worldwide and regional point of view.
- Identify and measure the static and dynamic effects of “negative” economic integration.
- Identify and measure “positive” economic integration: changes in political international negotiations, institutions, microeconomic and macroeconomic policies - with special attention to the case of the EU.
- Analyse the determinants behind the decisions of spatial location of the economic activity worldwide.
- Have an opinion with solid economic foundations on the main problems of the process of economic internationalization: behaviour of the multinational companies, commercial negotiations, foreign debt, local incentives to attract foreign direct investment, determinants of growth, development and welfare; advantages and costs of the international migration; reasons behind the phenomenon of outsourcing/delocalization of the economic activity...
- Have an opinion with economic base on the main problems of the process of monetary and financial integration: choice of exchange systems (dolarization), monetary crisis, processes of contagion, consequences about the banking section, the Tobin tax, measurements of the degree of financial integration, coordination of macroeconomic policies...

4. Contents.

The course is divided into two parts: the processes of real integration and the processes of financial and monetary integration. With regard to the processes of real integration, the starting point is the theory of the custom unions (Viner, 1950); in order to understand the processes of financial and monetary integration, the starting point is the theory of the ideal monetary unions (Mundell, 1961). Both theories have served during decades to understand challenges which are

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confronted by the countries that have decided to start a process of real integration (the European Communities, NAFTA, MERCOSUR) or monetary (the Economic and Monetary Union).

These first theories have been complemented by others, developed in later decades as the economic science was providing new conceptual frameworks. For example, with the creation of a common market, Geographical Economy re-emerges; or the financial and bank crisis has forced the economists to review the macroeconomic models.

Viner, J. (1950) "The Customs Union Issue", Carnegie Endowment for International Peace, New York.

Mundell, R. A. (1961) "A Theory of Optimum Currency Areas", American Economic Review 51 (4): 657-665.

About the structure of the program, it consists of three differentiated parts. The **first part** is named **globalization, multilateral agreements and regional agreements** and it comprises the Topic 1 that serves to introduce the subject and to comment on the principal challenges that have nowadays the processes of regional and multilateral integration, as well as the consequences of the globalization. The **second part** is dedicated to the study of **the real aspects of the Economic Integration and is structured in four topics**. The Topic 2 Is dedicated to the study of the Theory of the Custom Unions and to the effects of the removal of the non-tariff barriers inside of an integrated area, while in the Topics 3 and 4 the fundamentals of the Theories of the Common Market are analysed, giving importance on the determinants and effects of the free circulation of the economic activity from the contributions of the New Economic Geography; at last, the Topic 5 presents us the consequences of the integration over the economic growth. Finally, **the third part** analyses the processes of the **Monetary and Financial Integration** in four topics. In Topic 6 a historical review of the process of financial integration is presented, its perspectives and forms of measurement, as well as the financial crises and the new systems of prudential supervision. In Topic 7, the advantages and inconveniences of passing from the mere financial integration towards more restrictive monetary agreements is analysed, giving place to monetary unions (complete or incomplete). The problems of the functioning of these agreements are exemplified in the case of the SME, analysing its utilization in a process of transition towards a complete monetary union. In Topic 8, the actual scheme of coordination of the economic policy in the EMU is explained, analysing the BCE design and the instrumentation of the monetary policy. Finally, in the Topic 6, the actual crisis of the euro is analysed, its origin, the measures taken, as well as the pending changes to be able to obtain a good government in the Euro Zone (EZ).

5. Skills to acquire.

Once the course is finished, the student has to be able to:

- Distinguish between the processes of globalization and regional integration.
- Distinguish between the different types of regional integration and its different economic consequences.
- Know the **databases and bibliographical** necessary for the analysis of the processes of integration.
- Know the different **methods of empiric analysis** of the effect of the economic integration.
- Write a report on the situation and perspectives of a specific process of integration.
- **Aptitude to read and deal with fluency high-level and technical reports** written by **international organizations** about trade and economic integration. Special support will be done in the reading and critical analysis of the Annual Reports on **Trade of the World Organization of the Trade and of the European Central Bank**.

6. Competences and social skills

Social skills

- Ability to work in a team (collaboration, agreement, negotiation, conflict resolution and respect to the opinion of the rest)
- Skill to argue and express in a coherent and intelligible form, both in writing and presentations.
- Development of a critical capacity that allows argued judgements and its defence with rigor with your work and opposite to those of the companions.
- Promote the developments of attitudes and scientific values that allow an ethical behaviour in the development of your professional activity, beyond judgements of value and widespread beliefs, without economic foundation.

Competences

- Ability to analyse and summarize the information.
- Ability to apply theoretical knowledge to a practical problem.
- Ability to construct a written and understandable text that is well organized, documented and illustrated.
- Ability to present the information (analysis, studies, reports...) before a specialized audience (future clients, suppliers, executives...)
- Ability to manage the necessary IT programs.

7. Syllabus and Planning.

Program.

Economic Integration

Summary

I. GLOBALIZATION, MULTILATERAL AND REGIONAL AGREEMENTS.

Topic 1. The processes of international economic integration in the 21st century

II. REAL ASPECTS OF THE ECONOMIC INTEGRATION

Topic 2. Trade integration. Theory of the customs union.

Topic 3. The free mobility of factors. Theory of the common market.

Topic 4. Location and productive specialization: introduction to the Economic Geography

Topic 5. Economic integration and growth.

III. MONETARY INTEGRATION

Topic 6. The international financial integration.

Topic 7. Incomplete monetary unions: The European Monetary System.

Topic 8. Complete monetary unions: The Monetary and Economic Union.

Topic 9. The crisis of the euro: (1) origin and (2) solutions.

Bibliographic material

There is no “complete” textbook that covers, with the sufficient level of formalization and detail, the program of this subject. First, due to the fact that this is a post-degree, it is fundamental that the students get used to handling specialized publications, so a textbook is not indispensable in this subject. Second, the dynamic process of integration forces to continuous material upgrading. This can only be done using the most recent contributions in specialized journals.

The textbooks that cover partially the content of the program are:

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- **Camarero, M y Tamarit, C.** (2006): Esquemas y Apuntes de Integración Económica, Servicio de Reprografía. Universitat de València.
- **Tugores Ques, J.** (2006): Economía Internacional: Globalización e Integración Económica, Ed. McGraw Hill, 6a edición.
- **Jordán, J. M y Tamarit, C.** (2013): Economía de la UE, Ed. Cívitas. 7ª edición.
- **Balwin, R. y Ch. Wyplosz** (2015): *The Economics of European Integration*, fifth edition. MacGraw-Hill.

As a complementary bibliography there are academic and non-academic articles, in English or Spanish, that the student must refer. Special attention will be paid to the publications of the EU institutions, such as the European Commission, which are a fundamental source of consultation for the study of this topic and are available in the **Centre of European Documentation (CDE)** located in the Library of Social Sciences.

- **Consultation pages on the Internet.** In order to facilitate information a day about the subject in terms of material of support and consultation, two pages can be visited:
 - Personal page of the teacher. <http://www.uv.es/~tamac> to contact with the teacher for virtual appointments of consultation of doubts and the connection from the [Aula Virtual](http://aulavirtual.uv.es) (<http://aulavirtual.uv.es>) for notes in ppt, voluntary readings and questionnaires of the mandatory readings, as well as interactive questions and general information about grades, scholarships and job opportunities.
 - Page of the Joint Research Unit in Economic Integration. <http://www.uv.es/inteco>. In this one you can find links with other centers of investigation on International Economy, as well as with international organizations.

FIRST PART: INTRODUCTION

Topic 1. The processes of international economic integration in the 21st century

- 1.1. The theory of the economic integration in the context of the International Economy.
- 1.2. The liberalization of the worldwide trade: globalization and regionalism.
- 1.3. The current situation of the multilateral trade agreements: WTO/WTO.

- 1.4. The current situation of the Economic Integration in Europe: EMU.
- 1.5. Other processes of economic integration in the world: NAFTA, MERCOSUR, ASEAN, agreements in Africa and the Caribbean.

Summary and aims:

The theory of the Economic Integration is part of the International Economy that hope to explain the reasons and predict the effects of the discriminatory processes of economic liberalization between countries. In this topic, as well as introducing the area of study, we explain the temporary evolution and actual situation of the processes of integration, analysing the specific characteristics that are met in the regional integration between developed countries and those who are still developing.

Basic bibliography:

Jordán, J.M^a y Tamarit, C. (2013): *Economía de la Unión Europea*, 7a edición, ed. Cívitas. Caps. 1 y 2.

Tamarit, C.R. (2000): “La globalización comercial y los grandes bloques regionales dentro de la economía mundial” en J.C. Jiménez (ed.) *La economía española ante el nuevo siglo*, ed. Cívitas.

Complementary bibliography:

WTO (2015): Report on the World Trade 2014. Geneva.

SECOND PART: THEORIES OF THE REAL ECONOMIC INTEGRATION.

Topic 2. Trade Integration. Theory of the Customs Unions.

- 2.1 Traditional theory of the Customs Unions: effects on allocative efficiency.
- 2.2 Beyond the traditional theory: effects on the terms of trade and the suppression of non-tariff barriers.
- 2.3 Dynamic effects of the trade integration.
- 2.4 Measurement of the effects of the formation of customs unions: the case of the formation of the European Community.

Summary and aims:

This topic, with a clear analytic approach, presents the existing theoretical models that analyse the static effects of trade integration, coming out of the

traditional theory of the Customs Unions. Next we incorporate new developments to address the dynamic effects, paying special attention to models that introduce the presence of economies of scale, as well as, in the treatment of the effects of well-being generated by the suppression of non-tariff barriers. The last part of the topic will approach some procedures of comparison and estimation of the effects derived from the formation of customs unions, with examples of those effects in the EC and first adhesions in 1973 and 1985.

Basic bibliography:

- Baldwin, R. y Ch. Wyplosz (2015):** *The Economics of European Integration*, MacGraw-Hill. caps. 5, 6 y 7.
- Roca, A. (2013):** “Análisis de la integración económica”, Cap. 5 en Jordán J.M^a y Tamarit, C. (2013): *Economía de la Unión Europea*, 7a edición, ed. Cívitas.

Topic 3. Free movements of factors. Common market theory.

- 3.1 Definition and elements of a Common Market.
- 3.2 Explanatory models of the determinants of the mobility of factors: labour and capital.
- 3.3 Static effects of the free mobility of labour.
- 3.4 Foreign Direct Integration and Investment.

Summary and aims:

It goes beyond the stage of Customs Union to incorporate all the elements that integrates a Common Market, in other words, the models who introduce the free mobility of productive factors, as well as the study of those barriers to the free traffic of goods that have not remained suppressed with the mere formation of a Customs Union. We develop specific models that capture the effects of both the mobility of the labour factor and the foreign direct investment (productive capital) caused by the integration of markets.

Basic bibliography:

- Baldwin, R. y Ch. Wyplosz (2015):** *The Economics of European Integration*, MacGraw-Hill. Cap. 8.

Topic 4. Productive specialization and localization: introduction to the economic geography.

- 4.1 The role of space in Economics: the traditional vision and the “new” theory of the international trade.
- 4.2 The core-periphery model.
- 4.3 Integration and location
 - 4.3.1 Demand and supply linkages
 - 4.3.2 Specialised labour pool.
 - 4.3.3 Knowledge spillovers.

Summary and aims:

It's continued in this topic the study of the common market and its effects on the productive location from the perspective of the Economic Geography. The determinants of the spatial differences in production have appeared traditionally depending on regional differences in factor endowments, technology or local policies. These traditional theories, although being relevant, are unable to explain why similar regions give place to developments in its productive structure very different. The field of Economic Geography tries to answer to the question of how the companies and the workers tend to generate agglomerations as the process of economic integration increases. The key is in the "external effects" of two types: the technological ones which arise from the personal relationships and that can be especially useful in small agglomerations, and the pecuniary ones, more important to explain the differences between countries and entire regions. Finally, in the practical classes, diverse typical cases are studied.

Basic bibliography:

Baldwin, R. y Ch. Wyplosz (2015): *The Economics of European Integration*, MacGraw-Hill, Cap. 10.

Complementary bibliography:

Krugman, P. (1992): *Geografía y Comercio*, Antoni Bosch. Barcelona.

Topic 5. Economic integration and growth.

- 5.1. The relationships between the trade openness and income per capita.
- 5.2. The effects of the economic integration over the productivity.
- 5.3. Empirical evidence in the European Union

Basic bibliography:

Baldwin, R. y Ch. Wyplosz (2015): *The Economics of European Integration*, MacGraw-Hill, Cap. 10.

Complementary bibliography:

Smith, A.; Venables, A. (1988): “Completing the Internal Market in the EC: Some Industry Simulations”, *European Economic Review*, 32, 1501-1525.

Badinger, H. (2005): “Growth Effects of Economic Integration-The Case of the EU Member States”, *Review of World Economics (Weltwirtschaftliches Archiv)*, 141 (1), 50-78

Crescenzi R.; Rodríguez -Pose A. (2012): “Infrastructure and regional growth in the European Union”, *Papers in Regional Science*, 91(3), 487–513.

Venables, A. (2003): “Winners and Losers from Regional Integration Agreements”, *Economic Journal*, 113, 747-761.

Walz, U. (1997): “Dynamic Effects of Economic Integration: A Survey”, *Open Economies Review*, 8(3), 309-326

THIRD PART: MONETARY AND FINANCIAL INTEGRATION

SECTION III: MONETARY AND FINANCIAL INTEGRATION.

Topic 6. International Financial Integration.

6.1 Recent trends in international financial markets: deregulation of national markets and liberalization of capital controls.

6.2 International capital markets. Basic conceptual issues.

6.3 Measurement of the degree of international financial integration.

- Determinants of interest rate differentials.
- Nominal interest rate differentials: market efficiency and conditional and non-conditional estimations of uncovered interest rate differentials.
- Real interest rate differentials: PPP and the short run.

6.4. The evolution of the international financial markets.

6.5. Consequences for the EU of the financial integration process: banking sector and financial markets.

6.6. International transmission of financial crises and financial supervision

Basic bibliography:

Balwin, R. y Ch. Wyplosz (2015): *The Economics of European Integration*, MacGraw-Hill. Cap. 13, 18 y 19.

Krugman, P. y M. Obstfeld (2006): *Economía Internacional: Teoría y Política*, Sexta edición, Prentice/ Addison-Wesley, cap. 21.

Tugores, J. (2006): Ob. Cit, cap. 5.

Topic 7. Incomplete monetary unions: the OCA theory and the European Monetary System.

- 7.1 A historical introduction to European monetary integration.
- 7.2 The choice of exchange rate regimes.
- 7.3 Monetary integration theory: Cost-benefit analysis from the Optimum currency areas approach (OCA).
- 7.4 The fragility of incomplete monetary unions.
- 7.5 An assessment of the European Monetary System.
- 7.6 The transition to a monetary union: the costs of the disinflation process in the 80's.
- 7.7 The Maastricht Treaty: a critical assessment of the convergence criteria.
- 7.8 Is Emu an optimum currency area?

Core text:

Baldwin, R. y Ch. Wyplosz (2015): *The Economics of European Integration*, MacGraw-Hill. Caps. 14, 15 y 16.

Camarero, M. y C.R. Tamarit (2013): “La Unión Monetaria Europea”, en Jordán, JM y Tamarit, C. (coordinadores): *Economía de la UE*, Cap. 14.

De Grauwe, P. (2018): *Economics of Monetary Union*, Oxford University Press, 12th edition). Caps. 1, 2, 3 y 4.

Supplementary Reading:

Sanchis i Marco (2014): *The Economics of the Monetary Union and the Eurozone Crisis*. Springer. Ch. 1.

Topic 8. Complete monetary unions: the European Monetary Union.

- 8.1. Economic Governance under Emu
- 8.2. The European Central Bank: targets, instruments and institutional setup.
- 8.3. Monetary policy in Emu.
- 8.4 Fiscal policies in Emu.

Core text:

- Baldwin, R. y Ch. Wyplosz (2015):** *The Economics of European Integration*, MacGraw-Hill. 16 y 17.
- Camarero, M. y C.R. Tamarit (2013):** “Las políticas macroeconómicas en la UEM”, en Jordán, JM y Tamarit, C (coordinadores): *Economía de la UE*, Cap. 15.
- De Grauwe, P. (2018):** *Economics of Monetary Union*, Oxford University Press, 12th edition). Caps. 8, 9 y 10.

Supplementary Reading:

- **Sanchis I Marco, M. (2014):**. *Op cit.* ch. 2 and 3.

Topic 9. The EMU crisis: (1) origin and (2) solutions.

- 9.1. The causes of the euro crisis.
- 9.2. ¿How to solve the EZ crisis?
 - i. On going reform plans.
 - ii. Banking Union and Capital Market Integration.
 - iii. New monetary and fiscal policies.
 - iv. Structural and institutional reforms.
- 9.3 The future of the EZ: ¿towards a federal EZ?

Basic bibliography:

- Baldwin, R. y Ch. Wyplosz (2015):** *The Economics of European Integration*, MacGraw-Hill. 16 y 17.

Camarero, M. y C.R. Tamarit (2013): “Las políticas macroeconómicas en la UEM”, en Jordán, JM y Tamarit, C (coordinadores): *Economía de la UE*, Cap. 15.

De Grauwe, P. (2018): *Economics of Monetary Union*, Oxford University Press, 12th edition). Cap. 5, 7 and 8.

European Commission (2017): “Reflection paper on the Deepening of the Economic and Monetary Union”, COM(2017) 291 of 31 May 2017.

Supplementary reading:

Baldwin, R. et al (2015): “Rebooting the Eurozone: Step I- agreeing a crisis narrative”, CEPR Policy Insight no. 85.

Baldwin, R. and F. Giavazzi eds (2016): How to fix Europe’s monetary unión: Views of leading economists. VoxEU.org eBook. CEPR Press.

PRACTICAL MODULE

Objective, content and evaluation of the practical module.

In the practical module we will analyze case studies to consolidate the comprehension of the key concepts learned during the lectures.

1) Questionnaire about the mandatory lectures (15% of the grade)

Compulsory reading for all the students in this academic year:

Baldwin, R. (2016): *The Great Convergence: Information Technology and the new globalisation*, Harvard University Press, Cambridge Massachussets.

Sinn, H-W (2014): *The Euro Trap. On bursting bubbles, budgets, and beliefs*, Oxford University Press.

A questionnaire related to the readings will be done.

2) Presentation of the readings in class with audiovisual media: (15% of the grade)

About the mandatory readings.

3) Attendance to conferences and seminars (voluntary) (Up to 0,5 points on top of the final grade)

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In a complementary way, along the course we recommend the students to attend **the invited conferences organized with the collaboration of the Cátedra Jean Monnet** in the Economic Integration of the University of Valencia or to attend seminars organized by the **Grupo de Investigación en Integración Económica (INTECO)**.

The set of works of the practical module represents up to 30 % of the final grade (3 points). The written examination will suppose 70 % of the final grade (7 points). The assistance to seminars and conferences can raise the final grade in 0,5 points.

With regard to the exercises of the classes (mandatory readings and audio-visual presentations), the listed bibliography is only introductory and the students should use additional sources to complete the exercises.

Previous knowledge.

- It is assumed that the registered students have basic knowledge of Macroeconomics, Microeconomy and World Economy (International Trade). In addition, it is advisable to have coursed a module of (Introduction to) Economy of the EU.