



**Seminar:**  
**“Macroeconomics of European Monetary Union”**  
**Summer Term 2013**

**Topic and structure of the seminar:**

The seminar offers a comprehensive overview of macroeconomic issues specific to the European Monetary Union, focusing on the main principles underlying the institutional architecture of EMU, macroeconomic developments and challenges before and since the onset of the crisis, and theoretical issues on how to design monetary unions from a model-based perspective.

The seminar will be organised in two parts:

**Part I:** In the first part of the semester, there will be 5 weekly meetings to discuss the broad overview book: **Paul de Grauwe, *Economics of Monetary Union*, 9<sup>th</sup> edition, Oxford University Press, 2012.**

The book consists of 11 chapters, and in the first part of the seminar we will go through the majority of these chapters. The course schedule summarised below indicates how this material will be grouped into 10 ‘themes’. This structure implies that we will cover 2 of these themes per session.

Each seminar participant will be responsible for the presentation of one theme (typically as a member of a team of 2 students), and all participants

are encouraged to read the other chapters of the books as well, since this material sets the stage for the second part of the seminar.

Please notice that we have for each theme only 45 min. To leave room for some discussion each presentation should not exceed 25 min! You are expected to cover all the major points, but otherwise you will have to be deliberately selective in your presentation. You find at the end of this syllabus some suggestions for background material on policy issues which may be of help to update the content of the book chapters where useful for your presentation. Given the time constraint, presenters have the job to summarise the punch line of the book chapter for which they are responsible, not more. So you will have to think a bit about how to fit your material into a concise and non-technical presentation of not more than 25 min.

You can choose and reserve your theme before the terms starts via a doodle-link to be made available soon. In case you don't express your interest before the terms starts, the remaining slots will be assigned during the organisational kick-off meeting on April 22.

**Part II:** The second part of the seminar will address selected topics identified in the first part in more depth and technical detail by drawing on various research papers on monetary union issues (see list of topics below). Part II will take place on a single day during the second half of the term, ie on June 28. Each participant is expected to choose one topic. Based on this topic, participants have to write a term paper (final version is due by July 12) and, prior to the finalisation of the term paper, have to present the findings during the seminar day on June 28.

### **Eligibility and Course language:**

The seminar is offered within the MIEPP-program as a seminar in “Macroeconomics and Monetary Economics” and will be held in English. The seminar can also be attended by Diploma students. Maximum number of participants: 20.

### **Seminar requirements:**

Grades will be based on the following three mandatory elements:

- 1) Presentation of a theme (based on the book by de Grauwe): 30%
- 2) Presentation of the main findings of the term paper on June 28: 30%
- 3) Term paper (to be finalised by July 12): 40%

### **Schedule (Overview):**

**Kick-off meeting for organisational issues** (allocation of topics etc):

**April 22, 12.30 pm –14.00 pm, HS VI.**

**Part I: April 29 – June 3 (5 sessions): Monday, 12.30 pm – 14.00 pm, HS VI.**

**Part II:** Seminar day on **June 28, 9.00am – 18.00 pm, HS V.**

Participation in all seminar parts is mandatory.

### **Detailed Schedule and Allocation of Themes for Part I:**

**April 29 (Session 1):**

**Theme 1:** De Grauwe (Chapter 1): The Costs of a Common Currency

**Theme 2:** De Grauwe (Chapter 2): The Theory of Optimum Currency Areas: A Critique

**May 6 (Session 2):**

**Theme 3:** De Grauwe (Chapter 3): The Benefits of a Common Currency

**Theme 4:** De Grauwe (Chapters 4 and 5): Costs and Benefits Compared (until Section 4.6 only) and The Fragility of Incomplete Monetary Unions

**May 13 (Session 3):**

**Theme 5:** De Grauwe (Chapter 6): How to complete a Monetary Union

**Theme 6:** De Grauwe (Chapter 7): The Transition to a Monetary Union

**May 20: no seminar**

**May 27 (Session 4):**

**Theme 7: De Grauwe (Chapter 8): The European Central Bank**

**Theme 8: De Grauwe (Chapter 9): Monetary Policy in the Eurozone**

**June 3 (Session 5):**

**Theme 9: De Grauwe (Chapter 10): Fiscal Policies in Monetary Unions**

**Theme 10: De Grauwe (Chapter 11): The Euro and Financial Markets**

**Part II: Topics (list of possible papers)**

*During the seminar day in June we will be able to cover about 8 topics. The list below makes proposals. The list is not exhaustive (i.e. suggestions for papers of similar standards may be accommodated). Since the number of participants exceeds the number of topics students will be asked to form groups for the presentation. However, term papers need to be written individually.*

*The final 4 topics have a policy focus and address proposals on how to reform elements of the governance structure in the euro area. Students who express interest in a particular topic with a policy focus are expected to follow ongoing developments. The main elements and pros and cons of any particular proposal should be presented and discussed within the broader context of ongoing developments.*

**Topics (theory):**

T1) Bergin, P., Fiscal solvency and price level determination in a monetary union, *Journal of Monetary Economics*, 45/1, 2000.

T2) Chari, V. and Kehoe, P., Time inconsistency and free-riding in a monetary union, *Journal of Money, Credit, and Banking*, 40/7, 2008.

T3) Cooper, R. and Kempf, H., Overturning Mundell: Fiscal policy in a monetary union, *Review of Economic Studies*, 71, 2004.

T4) Dixit, A. and Lambertini, L., Symbiosis of monetary and fiscal policies in a monetary union, *Journal of International Economics*, 60, 235-47, 2003.

T5) Sargent, T. and Wallace, N., Some unpleasant monetarist arithmetic, Federal Reserve Bank of Minneapolis, Quarterly Review, 5 (3), 1-17, 1981.

### **Topics (policy focus):**

P1) Delpla, J. and von Weizsaecker, J., The blue bond proposal, bruegelpolicybrief 2010/03, May 2010, available at: <http://www.bruegel.org/publications/show/publication/the-blue-bond-proposal.html>.

P2) German Council of Economic Experts, A Proposal: The European Redemption Pact, November 2011, available (in German and English) at: <http://www.sachverstaendigenrat-wirtschaft.de/schuldentilgungspakt.html>.

P3) European Economic Advisory Group, A Proposal: Euro-Standard Bills, in: EEAG Report on the European Economy 2012, Chapter 2: "The European Balance-of-Payments Problem", CESifo, Munich 2012. For updated empirical findings see also: EEAG Report on the European Economy 2013, Chapter 2: "European Imbalances", CESifo, Munich 2013, available at: <http://www.cesifo-group.de/ifoHome/policy/EEAG-Report.html>.

P4) European Economic Advisory Group, US Precedents for Europe, in: EEAG Report on the European Economy 2013, Chapter 4: "US Precedents for Europe", CESifo, Munich 2013, available at: <http://www.cesifo-group.de/ifoHome/policy/EEAG-Report.html>.

### **Background material:**

#### **D) Policy issues**

**European Central Bank, various documents and Monthly Bulletin articles for coverage of recent euro area developments, including among others:**

- 1) Recent Developments in the Balance Sheets of the Eurosystem, the Federal Reserve System and the Bank of Japan, ECB Monthly Bulletin, October 2009.
- 2) The ECB's Response to the Financial Crisis, ECB Monthly Bulletin Article, October, 2010.

- 3) The ECB's Non-Standard Measures – Impact and Phasing-Out, ECB Monthly Bulletin Article, July 2011.
- 4) The Reform of Economic Governance in the Euro Area – Essential Elements, ECB Monthly Bulletin Article, March 2011.
- 5) The European Stability Mechanism, ECB Monthly Bulletin Article, July 2011.
- 6) Monetary and Fiscal Policy Interactions in a Monetary Union, ECB Monthly Bulletin Article, July 2012.
- 7) The Importance and Effectiveness of National Fiscal Frameworks in the EU, ECB Monthly Bulletin Article, February 2013.

**European Commission, various documents and overview material, including:**

Public Finances in EMU, various annual reports, available at:  
[http://ec.europa.eu/economy\\_finance/publications/european\\_economy/public\\_finances\\_emu\\_en.htm](http://ec.europa.eu/economy_finance/publications/european_economy/public_finances_emu_en.htm)

**OECD:**

Economic Surveys: Euro Area, various annual reports, available at:  
<http://www.oecd.org/eco/49950024.pdf>

**Further selected material:**

Baldwin, R. and Gros, D. (ed.), Completing the Eurozone Rescue: What more needs to be done?, CEPR, 2010.

Borio, C. and Disyatat, P., Unconventional monetary policies: an appraisal, No 292 BIS Working Paper, November 2009.

Bundesministerium für Wirtschaft (BMWi), Überschuldung und Staatsinsolvenz in der Europäischen Union, Gutachten des Wissenschaftlichen Beirats beim Bundesministerium für Wirtschaft (BMWi), November 2010, available at: <http://www.bmwi.de/BMWi/Navigation/Service/publikationen,did=376066.html>.

Buiter, W. et al., The Implications of intra euro-area imbalances in credit flows, CEPR policy insight, 57, August 2011.

Cesifo Forum, Volume 11, Special issue: Rescuing Europe, August 2010.

Gianviti, F., Krueger, O., Pisany-Ferry, J., Sapir, A., v. Hagen, J., A European Mechanism for Sovereign Debt Crisis Resolution: A Proposal, Bruegel, November 2010, available at: <http://www.bruegel.org/publications/show/publication/a-european-mechanism-for-sovereign-debt-crisis-resolution-a-proposal-1.html>

Gros, D. and Mayer, T., Towards a (Euro)pean Monetary Fund, CEPS Policy brief, updated 17 May 2010, available at: <http://www.ceps.eu/book/towards-european-monetary-fund>.

Sinn, H.-W. and Wollmershäuser, T., Target loans, current account balances and capital flows: the ECB's rescue facility, International Tax and Public Finance, Springer, vol. 19(4), pages 468-508, 2012.

## **II Theory:**

Chari, V. and Kehoe, P., On the need for fiscal constraints in a monetary union, Journal of Monetary Economics, 54, 2007

Cooley, T. and Quadrini, V., Common currency vs. monetary independence, Review of Economic Studies, 70, 2003

Cooper, R. and Kempf, H., Regional Debt in Monetary Unions: Is it Inflationary?, European Economic Review, forthcoming.

Dixit, A. and Lambertini, L., Monetary-fiscal policy interactions and commitment versus discretion in a monetary union, European Economic Review, 45, 977-987, 2001.

Gali, J. and Monacelli, T., Optimal monetary and fiscal policy in a currency union, Journal of International Economics, 76, 2008.

Sims, C., The precarious fiscal foundations of European Monetary Union, mimeo, 1999

Sims, C., Fiscal and monetary policy interactions, mimeo, available at: [http://www.ecb.int/events/conferences/html/ecb\\_mopo\\_fipo.en.html](http://www.ecb.int/events/conferences/html/ecb_mopo_fipo.en.html)

Uhlig, H., One money, but many fiscal policies in Europe: what are the consequences?, in: M. Buti (ed.), Monetary and fiscal policies in EMU, Cambridge University Press, 29-56, 2003.