



## Försättsblad Prov Original

Kurskod	Provkod	Tentamensdatum
N A 0 0 7 G	1 0 0 0	2 0 1 8 - 1 1 - 0 9
Kursnamn	Nationalekonomi GR (C), Europeisk ekonomisk integration	
Provnamn	Examination	
Ort	Östersund	
Termin	H18	
Ämne	Nationalekonomi	



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EXAM 2018-11-09 - NA007G - Östersund and Sundsvall  
European Economic Integration, C

Examiner: Lovisa Högberg (010-142 80 41 / 072-581 89 84)

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The examination consists of 5 questions and gives a maximum of 50 points in total. For the level of **pass (godkänt, E)** 25 points is required and the grade is based on the ECTS scale. Any points you have acquired from seminars will be counted towards the total result for the three exams pertaining to the original course round.

In the process of marking (grading), your ability to discuss as well as give a plain and systematic formulation of the problem will be considered. **Read the questions carefully.** Graphical illustrations and mathematical formulas must be literally explained. Your answers need to be clear and legible.

You may answer in Swedish or in English. Allowed facilities: Dictionary.

GOOD LUCK!

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QUESTION 1                      10 points

- (a) According to the Optimal Currency Area (OCA) theory, there are three variables that affect how attractive it is for an outside country to join a monetary union. What are these variables and under what conditions does an individual country have low costs of entering a monetary union?
- (b) Explain through which two mechanisms a budgetary union can reduce the costs of a monetary union!

QUESTION 2                      10 points

Germany is a “hard-nosed” country, Other European countries are regarded, in eyes of Germany, as Italy, i.e., as “wet” countries.

- (a) What is the difference in policy preference between “hard-nosed” and “wet” countries?
- (b) Using the Barro-Gordon model, explain the main reason for choosing the inflation target of at most 2% in EMU!



QUESTION 3

10 points

- (a) For a country in an incomplete monetary union, explain what is meant by a *bad equilibrium*?
- (b) What changes can be made to an incomplete monetary union to avoid bad equilibria?

QUESTION 4

10 points

- (a) Price stability is the main objective of the EMU and the ECB has several instruments to achieve this. Explain how the Outright Monetary Transactions (OMT) programme and the Securities Market Programme (SMP) differed in regards to who the beneficiaries of the programmes were, how they were designed and how they have succeeded!
- (b) Explain why price stability may be in conflict with financial stability if there is a technology induced boom!

QUESTION 5

10 points

- (a) The figure in the budget convergence criteria is 3% of GDP. What is the figure based upon?
- (b) What are the spillover effects in the monetary union (which motivates having rules on government budget deficits) if one member country has an unsustainably increasing government debt?
- (c) Explain the two incentive effects on fiscal discipline that joining a monetary union may have!

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This was the last question. Please, write your personal code on all your papers. The cover page must be turned in. Don't forget any paper!

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