

**IAFS 4500.005  
Midterm Exam**

**Professor Håle Utar**

**Total: 100 points  
March 13, 2007**

**Name:**

The points awarded for each question is indicated.

Note that you will be required to answer all of the questions except in Part C where you can choose one out of three.

Answer questions (*in legible writing*) in the space provided; you can also use reverse sides when necessary.

Explain your answers clearly and carefully; monosyllabic answers (yes/no) will be awarded zero credit.

Good luck!



**Part A. (Total 30 points)**

Question 1: (7.5 points) What does the term “fragmented economy” refer to? Name the two big events in the European economic integration history that aims at de-fragmentation.

Question 2: (5 points) What is passage probability? What does it measure?

Question 3: (5 points) If the EU Court decides on a matter, is there any way that EU leaders can overrule that decision?

Question 4: (5 points) What is the difference between custom unions and free trade areas?

Question 5: (7.5 points) List the Big-5 EU institutions and provide a brief explanation on their respective functions.

**Part B. (Total 45 Points)**

Question 1: (10 points) Using the economic analysis of preferential trade liberalization, explain why the WTO restrictions on custom unions and free trade areas might be a good idea.

Question 2: (15 points) When Bismarck led the drive to unify the many small regions and different states of Germany, he used a custom union (Zollverein) as both a carrot and a stick to encourage unification. Use an economic analysis of 'preferential trade liberalization' to explain this strategy.

Question 3: (10 points) Explain, using the concepts we used in class, why European integration would increase the competitiveness of European firms vis-à-vis US firms.

Question 4: (10 points) The number of mergers and acquisitions during the last two decades is larger relative to the size of the economy in EU's small economies compared to EU's large economies. Explain why.

### **Part C. Discussion Questions (Total 25 points)**

Please choose only one.

Question 1:

Discuss the importance of the high growth rate experienced in the original six countries until the beginning of 70s in determining the extent and success of EU integration today. (Especially compared to EFTA members) What do you think are the main determinants of this economic success? What might be the situation today if the EEC had not shown great performance relative to the rest of Europe?

Question 2:

Describe the events that led up to the EU's and USA's imposition of protection against Chinese clothing exports in 2005. How was EU's solution, how does it compare with the US government's reaction? Critically evaluate them using the concepts that we learned in class.

Question 3:

Evaluate the following statement in the UK Treasury's assessment of Euro area membership:

'It is important to make more progress at the European level, in particular on employment flexibility, trade and the Single Market in financial services. The less progress on flexibility is achieved in the EU, the greater the premium on a high level of flexibility in the UK economy.'