Reforming the Euro Area

Blockseminar – December 13 and 14, 2018
JProf. Dr. Jonas Dovern

Topic of the Seminar
The Financial Crisis of 2007/08 and the subsequent European debt crisis revealed important shortcomings of the institutional architecture of the euro area. In particular, it became evident i) that capital markets, especially the banking sector, were far from being perfectly integrated, ii) the fiscal policy architecture provided no instruments for substantial coordinated stabilization policy, and iii) how difficult and politicized the implementation of expansionary monetary policy at the zero lower bound is in a currency union whose members experienced widely diverging business cycles.

It is uncontroversial that the institutions of the euro area need to be reformed. There is less consensus on how exactly these reforms should look like – although some steps towards a new institutional architecture have been made already.

By looking at actual policy proposals that have been made by various actors, students will discuss different positions on how these reforms ought to look like. They will also debate which reforms would be reasonable from an economic point of view.

The seminar is for students from the M.Sc. Economics program and fits the modules MScE 2C or MScE 3C.

Organization
There will be a mandatory meeting of all seminar participants on October 24, 2018, from 15:15h to 16:45h (room 01.030) during which we will distribute topics and clarify open questions from students. All students have to pick one of the fields “financial regulation”, “fiscal policy”, and “monetary policy”. They will be the experts on this area for the panel discussions during the seminar and they will write their seminar thesis about one topic from that field. Note that topics do not relate to one particular paper but rather should be framed in form of a policy relevant question (e.g., “Which issues hinder the fast implementation of a complete banking union in the euro area?”).

Please think about what topic you would like to write about before the meeting in October.

All students have to read a number of chapters from a book (Brunnermeier et al., 2016) that discusses different ideas about how policies for the euro area should be designed and gives a good overview about the most important events during the crisis and about the most important actors. To enhance students’ understanding of the issues discussed by the book, every participant has to hand in a brief book review of approximately (but not more than) 1,200 Words (covering only the mandatory chapters) until November 30, 2018. The review can be written in either German or English.

The seminar on December 13 and 14 (in room 02.036) will consist of two parts. First, students have to present posters (in English) summarizing the topic of their seminar thesis. (Depending on the number of participants this might be changed to regular presentations.) These posters will be presented in different sessions and other students (and I) will have the chance to ask questions about the posters. Second, for each field (financial regulation/fiscal policy/monetary policy) we will have a panel discussion (in English) during which students debate different policy proposals. 

1/3
After the seminar, students have to finalize their seminar thesis which allows them to incorporate input they get during the seminar on December 13 and 14. Students should hand in their thesis until January 31. The thesis should contain a maximum of 15 pages and can be written in either English or German. Please consider the style guide available at Prof. Enders’ website.

Registration
To register for the seminar, you should have completed successfully the course “Macroeconomics” (MScE 1B). Please fill out the registration form (at the end of this document) and either put it into my mailbox at the AWI or send a scan to rosa.huhn@awi.uni-heidelberg.de before October 19, 2018. Please note that the number of participants is restricted to 20. We first accept students with the lowest number of seminars they have already taken. Should this criterion be not enough, we use a lottery to determine the remaining participants. Please note that you cannot retreat from your registration after October 19, 2018. Students who are registered and do not show up will receive a grade of 5.

Grading
The overall grade will be a weighted average of the grades received for
- a brief written review of “Euro and the battle of ideas/EURO: Der Kampf der Wirtschaftskulturen” (10 %),
- a seminar thesis (60 %),
- the (poster) presentation of the thesis (20 %), and
- the performance in the panel discussion of euro area reforms (10 %).

Literature
Background reading for all participants
Chapters 1-2, 5-6, 9, 11, and 15-16 of Brunnermeier et al. (2016). (Note that you can either read the English or the German version of the book.)

Additional literature – financial regulation:
• Admati, A. and Hellwig, M. F. (2013), The Bankers’ New Clothes: What’s Wrong with Banking and What to Do About it, University Press Group Ltd.

**Additional literature – fiscal policy:**


**Additional literature – monetary policy:**

Registration for Seminar
Reforming the Euro Area

<table>
<thead>
<tr>
<th>Surname, name:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>E-Mail:</td>
<td></td>
</tr>
<tr>
<td>Matrikelnummer:</td>
<td></td>
</tr>
<tr>
<td>Number of previously taken seminars</td>
<td></td>
</tr>
<tr>
<td>Passed „Macroeconomics“ ? (Yes/No)</td>
<td></td>
</tr>
<tr>
<td>Study program</td>
<td>M.Sc. Economics</td>
</tr>
<tr>
<td></td>
<td>□ Other:</td>
</tr>
<tr>
<td>Date, Signature</td>
<td></td>
</tr>
</tbody>
</table>
The eurozone, officially called the euro area, is a monetary union of 19 member states of the European Union (EU) that have adopted the euro (€) as their primary currency and sole legal tender. The monetary authority of the eurozone is the Eurosystem. Eight members of the European Union continue to use their own national currencies, although most of them will be obliged to adopt the euro in the future. The southern Euro area countries have been actively reforming to regain price competitiveness and restore fiscal sustainability (Figure 18). In particular, Greece, Portugal and Spain have undertaken fundamental reforms that are very difficult to implement in non-crisis situations. 21. The reforms that have been undertaken in the Euro area countries cover many areas (Table 1), including taxes, product and labor market policies, education, pensions, public spending and, to a lesser extent, infrastructure: â€¢ In one euro area country out of two, including Greece and Spain, the implicit tax on continued. Indeed, euro area economies that were more flexible at the start of the crisis â€” as measured by the World Bank Doing Business Indicator in 2009 â€” subsequently showed a stronger recovery. GDP per capita rebounded faster and unemployment fell more.[1]. And looking at the last 15 to 20 years â€” so over the full cycle â€” euro area countries with sound economic structures at the outset have shown much higher long-term real growth. New research also finds that labour market reforms in the euro area reduce the dispersion of unemployment and GDP across member countries following a common shock, making the single monetary policy more effective for everyone.[4]. But it is clear that, to get the best results, there has to be some broad coordination among countries. The need for structural reforms in the euro area is not new but the financial crisis made it more urgent. The article overviews the main results regarding the macroeconomic impact of these reforms in the economic literature based on general equilibrium structural models. International organizations such as the European Commission, the International Monetary Fund (IMF) or the Organization for Economic Cooperation and Development (OECD) have frequently stressed the need to introduce structural reforms in European countries, i.e. policy measures with the purpose of changing the institutional framework and constraints on market functioning.