

## Final Exam

This is a 3 hour exam. There are five equally weighted questions. Please read them carefully and answer each of them. If you have problems understanding a question please do ask. *Good luck and goed geluk !!!*

**Question 1:** The EU Budget.

- a) List and rank (by size) the main positions on the revenue and on the expenditure side of the EU budget. What percentage of EU GDP does the EU budget account for?
- b) Briefly discuss the advantages and disadvantages of centrally deciding EU-wide policies in Brussels.
- c) Comment on the use of net contribution data to determine how beneficial EU membership is for individual countries.

**Question 2:** Scale Economies and Competition.

- a) Using the BE-COMP monopolistic competition framework, explain the economic scale effects of a large and integrated European market.
- b) From the perspective of competition policy, explain the effects that a large company resulting from a merger can have on consumers, on competitors and on the merging companies themselves.
- c) In the context of the EU market, discuss the different policy implications of a competition policy regime with only national competition authorities as opposed to the status quo with a union-wide competition authority.

**Question 3:** Factor Mobility.

- a) In an appropriate and carefully labelled “Neary bucket” diagram, depict the effects of migration on the different groups in each country (including the migrants) and show that migration increases over-all economic efficiency.
- b) Explain in detail how the result from b) change if there is a fixed one-time cost of migration  $c$  that is lower than the initial wage difference.
- c) Discuss how factor mobility affects the state’s ability to tax different factors. Does it become easier or harder to tax the mobile versus the immobile factor?

**Question 4:** Common Agricultural Policy (CAP).

- a) Explain why many countries intervene in agricultural markets and list the main objectives of the CAP.
- b) Graphically explain the workings of a price guarantee for an agricultural good that is imported. What will be the effects on the different groups involved, inside and outside the country.
- c) Compare price guarantees to direct payments and explain why the CAP is moving from the former to the latter.

**Question 5:** Monetary Union.

- a) Explain the “Impossible Trinity”, that is, label the corners of the triangle, and briefly explain what is possible and what is impossible.
- b) List advantages and disadvantages of a flexible versus fixed exchange rate regime, and comment on whether either are predominantly Micro or Macro.
- c) Using the criteria for an optimal currency area, discuss whether Euroland (i.e. the European monetary union) constitutes such an area.