

Midterm

This is a 90 min exam. There are three equally weighted questions. Please read them carefully and answer each of them. If you have problems understanding a question please ask. *Good luck !!!*

Question 1: The EU Budget.

- a) List the main sources of revenue for the European Union as well as the main components of its expenditure.
- b) How does the EU budget compare to a typical national budget? What percentages of GDP are funnelled through the budgets respectively, and which items are missing from the EU budget?
- c) Comment on the use of net contribution data to determine how beneficial EU membership is for individual countries.

Question 2: Economic Integration.

- a) Derive and explain the “comp” (competition) curve.
- b) Derive and explain the “break even” curve. How does the slope of this curve depend on whether the technology exhibits increasing, constant, or decreasing returns to scale.
- c) Assuming increasing returns to scale, use the BE-Comp diagram to analyze what effects the integration of two-equally sized economies will have on the number of firms (per country and total) and on welfare.

Question 3: 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.