

**ESSCA. European Economics. INT 356. Exam 2019**  
**Answers**

Answer ALL questions. 100 marks. 2 HOURS

*ANSWERS FOR PART A MAY BE IN NOTE / LIST FORM. No dictionaries or calculators allowed.*

*This exam is separated into two parts – Part A with short-answer questions, and Part B with questions requiring longer answers. You should spend about 1 hour per section.*

**PART A**

**Short-answer questions / 50**

1. Normal export sales to Brazil are 1,000 units per year. The elasticity of my product is -3. Due to a strengthening Euro, the price in Brazilian Reais increases by 25%. What will my future export sales be? (4 marks)

*25 x 3 = 75%. 75% of 1,000 is 750. 1,000-750 = 250.*

2. List the Maastricht Criteria, required to join the EMU (5 marks)

*Deficit equal to or less than 3% GDP (or near to it and going in the right direction)*

*Debt equal to or less than 60% GDP (or near to it and going in the right direction)*

*Inflation rate must not exceed the average inflation rate of the three best performing Member States by more than 1.5%.*

*Interest rate should not exceed by more than 2% that of the three best performing Member States in terms of inflation*

*Must belong to the Exchange Rate Mechanism (ERM) for at least two years.*

3. Which member of the EU is not on the European Continent? (2 marks)

*Cyprus.*

4. What is the policy difference between the Airbus A380 and the US Dreamliner? (2 marks)

*The Airbus A380 is a hub-to-hub plane; the Dreamliner is a point-to-point plane.*

5. How does a government estimate its annual budget? (2 marks)

*The government takes the previous year's receipts and expenditure and estimates the growth rate in terms of GDP. This provides an estimate for revenue in the next year with which (plus borrowing within the Growth and Stability Pact) it can determine its budget.*

6. If a government increases its interest rate, what will be the effect on: (5 marks)

a) Consumer spending *Decreases*

b) Consumer saving *Increases*

c) Currency value *Increases*

d) Exports *Decrease*

e) Inflation *Decreases*

7. What is the difference between Monetary and Fiscal control? (2 marks)

*Monetary control uses the interest rate (if you have monetary sovereignty) and fiscal control uses tax changes.*

8. What is an IMF restructuring plan? (4 marks)

*Typically, when the IMF lends money, it imposes an IMF restructuring plan (Greece is a current example) that aims to reduce government expenditure by cutting back on public services such as*

*education, health care and public transport. It aims to increase privatisation and the sale of public assets and services, and to allow the free movement of currency and capital. It often reduces pensions, civil servant salaries and increases the number of years worked.*

9. What is the European Single Market? (3 marks)

*Members of the EU have no trade barriers amongst themselves, leading to the free movement of goods, services, capital and labour. Some non-EU countries (Norway, for example), belong to the EEA.*

10. What is the difference between GDP and HDI? (4 marks)

*The Human Development Index measures the income, health and education of the population and hence avoids the weakness of GDP that doesn't take into account social and environmental negative externalities. Currently used by the UN.*

11. Give the HDI and Gini scores for your country? (name the country) (4 marks)

12. How did the Bretton Woods agreement fix currency values? (3 marks)

*The currencies of the signatory countries were fixed to the dollar, and the dollar was fixed to gold at 35\$ per ounce, whereby each country had a fixed exchange rate with the other member countries.*

13. What is an ISDS? (2 marks)

*An Investor-State Dispute Settlement, often attached to a Trade Agreement, allowing private companies to sue a national government if its profits or potential profits are affected by national policy.*

14. What is a Customs Union? (2 marks)

*A Customs Union means that there is Free Trade between the partners for agreed goods and services, and that each member applies the same external import tariffs. Example: the EU and Turkey.*

15. Give an example of an EU Trade Agreement (either completed or being negotiated) (2 marks)

*Choose one of the EU's 36 completed agreements, or an agreement being negotiated.*

16. What is the difference between a progressive and regressive tax or duty? Give one example of each. (4 marks)

*Progressive – leads to redistribution. Income Tax, Corporation Tax, Wealth Tax.*

*Regressive - everyone pays the same. VAT, Alcohol, Tobacco and Fuel duty.*

## **PART B**

### **Long-answer questions / 50**

1. Describe one Tax, Duty or Benefit and its social and economic implications. (25 marks)

*Use your research for the presentation given in class.*

2. Describe a Case Study of lobbying. (25 marks)

*Use your research for the presentation given in class.*