

***European Economics***

***True / False answers***

***Dr David Rees***

## **Question 1.**

***Macroeconomics deals with the finances of multinational corporations***

***False***

### ***Macroeconomics***

***The field of economics that studies the behaviour of the aggregate economy. Macroeconomics examines economy-wide phenomena such as changes in unemployment, national income, rate of growth, gross domestic product, inflation and price levels***

### ***Microeconomics***

***The focus is placed on factors that affect the decisions made by firms and individuals.***

***The factors that are studied by macro and micro will often influence each other, such as the current level of unemployment in the economy as a whole will affect the supply of workers which an oil company can hire from, for example.***

***Exports and imports are strongly affected by exchange rates that are controlled by Macroeconomic decisions***

**Question 2**  
***Turkey wants to join the European Union***  
***True***

***1949 Turkey becomes a member of The Council of Europe***

***1961 Founding member of the OECD***

***1987 Turkey applies for membership of the EEC***

***1995 Turkey signs a Customs Union with the EU***

***1999 EU recognises Turkey as Candidate Country***

***2005 Membership negotiations start***

## **Question 3**

***Greece failed the Maastricht Criteria when the Euro was born***

**True**

### **Maastricht Criteria**

#### **1. Price Stability (inflation)**

***Average of three best performing Member States plus 1-1/2 percent.***

#### **2. Fiscal Prudence - annual deficit**

***A country must not exceed 3% for the government deficit to GDP;***

#### **3. Fiscal Prudence - total debt**

***A country must not exceed 60% for the ratio of government debt to GDP.***

#### **4. Successful EMS Membership**

***Must belong to the Exchange Rate Mechanism of the European Monetary System, for at least two years in ERM 2.***

#### **5. Interest-Rate Convergence**

***Must have an average long-term interest rate equal to or less than 2% of the three best performing Member States in terms of inflation***

## **Question 4**

***The Euro was born with an exchange rate of 1€ = 1\$***

***False***

***<http://www.investing.com/charts/real-time-forex-charts>***

***Born at 1\$15***

***Low 83c***

***High 1\$60***

***Why do exchange rates change ?***

***See next two Macroeconomics lessons***

.

## **Question 5**

***The UK wanted to join the EEC from the beginning  
but were refused by the French***

**True**

[http://www.youtube.com/watch?v=q\\_vRHj29Zww](http://www.youtube.com/watch?v=q_vRHj29Zww)

.

**Question 6**

***EMU stands for 'European Monetary Union'***

***False***

***EMU stands for 'Economic and Monetary Union'  
A group of policies aimed at converging members'  
Economies in three stages.***

***Tax harmonisation has failed***

## Question 7

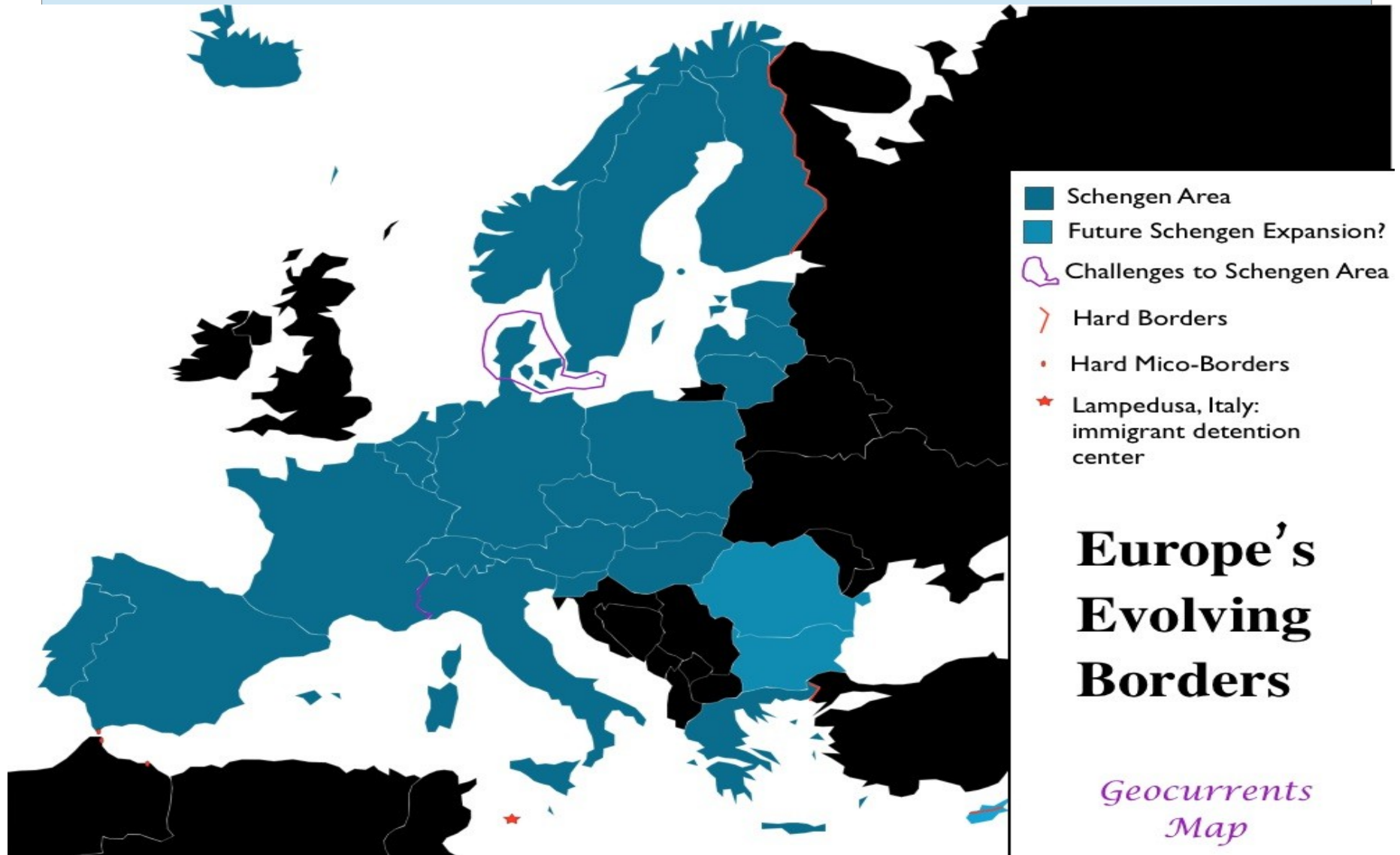
*New members of the EU can choose to stay out of EMU*

**False**



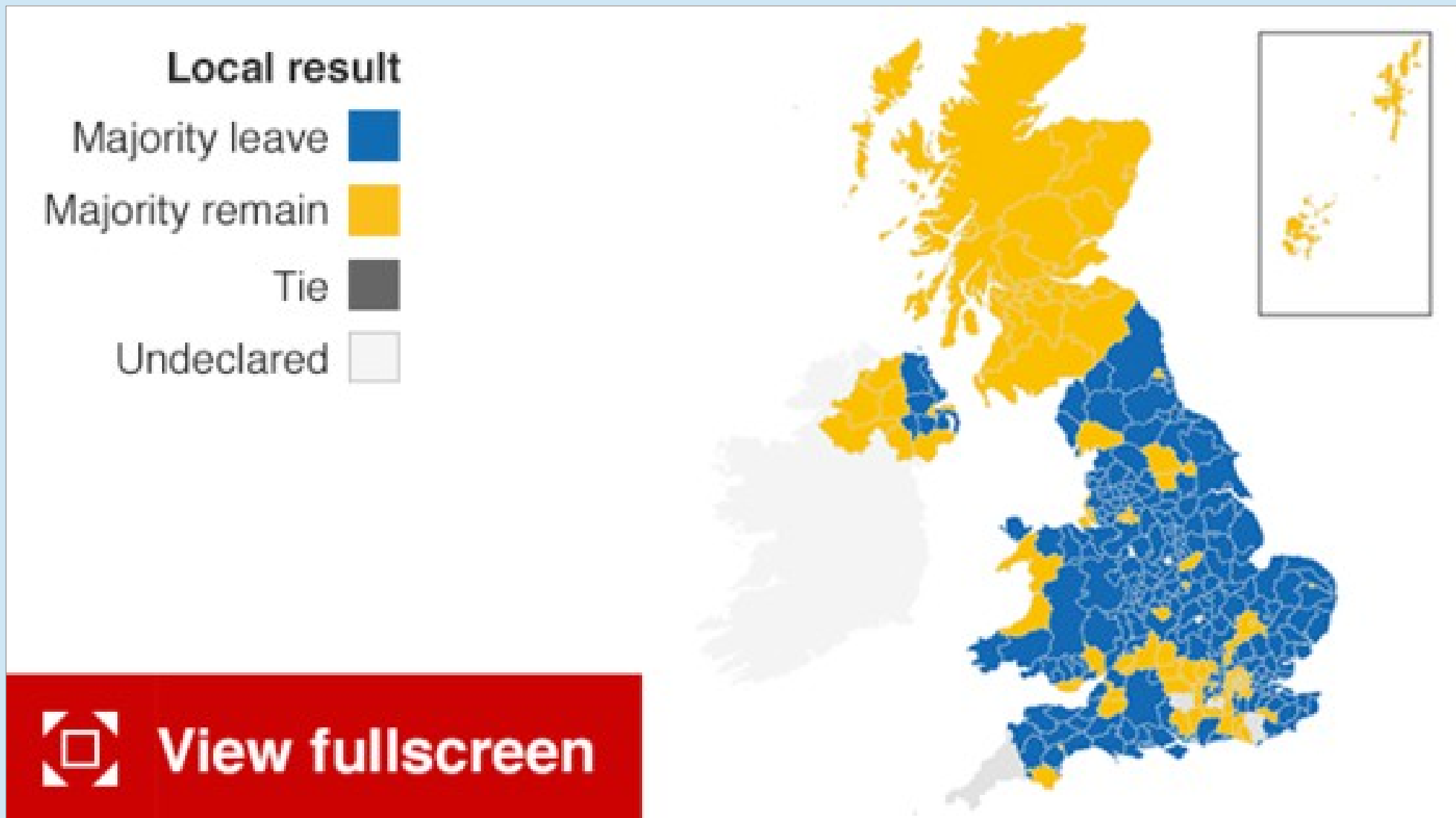


**Question 8**  
**Schengenland is entirely at the North of the EU**  
**False**



## Question 9

*The English and Welsh voted for the Brexit ; the Scottish voted against*  
**True**



## Question 10

***Danish EU membership led to political separation  
Between Denmark and Greenland***

**True**



## Importance of Greenland for future energy resources



## Question 11

*To be a member of the EU, a country must be on the European continent*

**False**



## Question 12

**With elasticity of -2, a 20% increase of a product's price will lead to a 20 decrease in sales**

**False**

$$E = -2$$

$$P \uparrow 20 \%$$

$$20 \% \times -2 = -40\%$$

**Therefore Sales ↓ 40%**

### Example

**If Price was 100€, increase to 120€**

**Sales were 1,000 units, now 600 units**

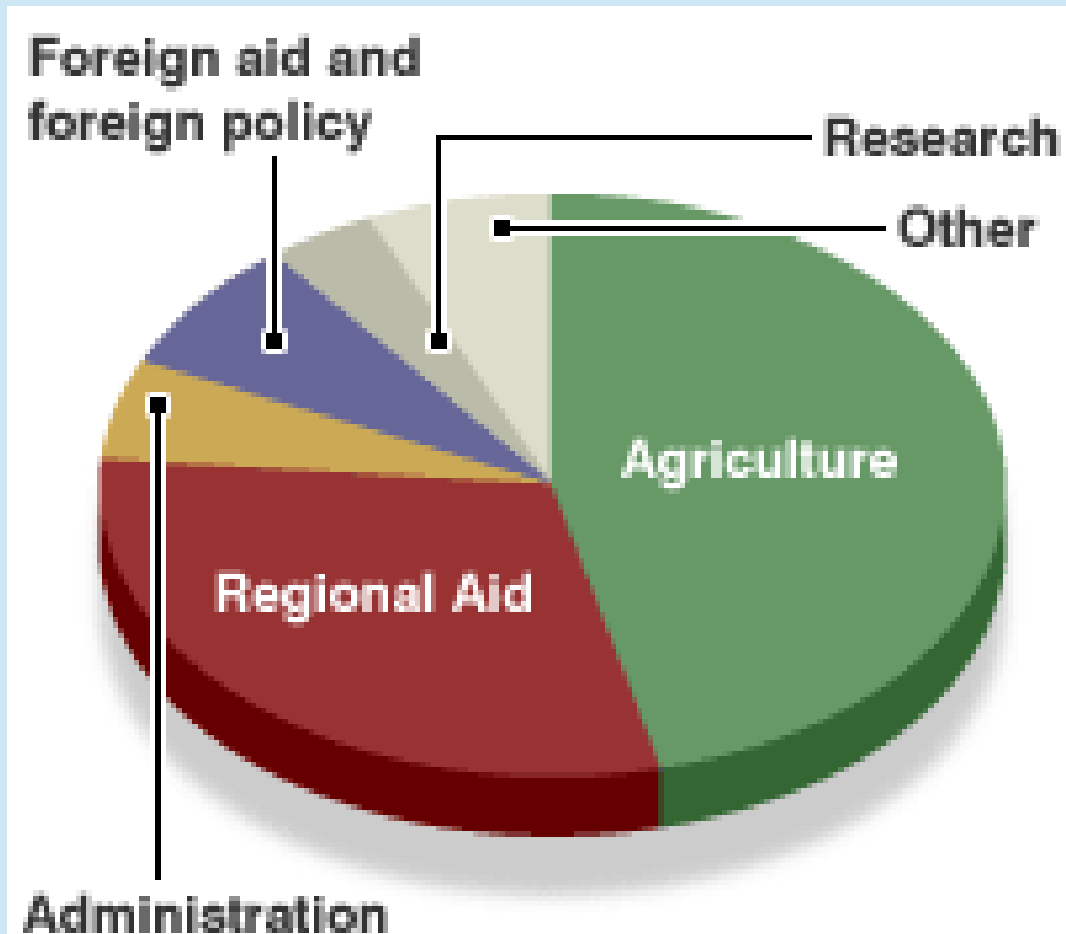
$$1,000 \times 100\text{€} = 100,000\text{€}$$

$$600 \times 120\text{€} = 72,000\text{€}$$

### Question 13

**The Common Agricultural Policy's budget  
Is about 40% of the total EU budget**

**True**  
**42 %**



SOURCE: European Commission



## Question 14

*The EU lost the banana war against the USA at the WTO*

**True**





## **Question 15**

***France can change its Interest Rate***

***False***

***France uses the Euro  
(it does not have monetary sovereignty)***

***The Euro Interest Rate is controlled  
by the European Central Bank***

**Question 16**  
**France can change its VAT rate**  
**True (20% from 1<sup>st</sup> January 2014)**

**Changes in VAT Rates Since VAT Introduction, Various Countries**

<b>Country</b>	<b>Original Rate</b>	<b>Current Rate</b>	<b>Percent Change</b>
Canada	7%	5%	-28.5%
Denmark	9%	25%	177.8%
France	13.6%	19.6%	44.1%
Germany	10%	19%	90.0%
Italy	12%	20%	66.7%
Japan	3%	5%	66.7%
Spain	12%	16%	33.3%
Sweden	17.7%	25%	41.2%
Switzerland	6.5%	7.6%	16.9%
United Kingdom	8%	17.5%	118.8%
Average	9.88%	15.97%	62.7%

# Question 17 France can change its alcohol duty

**True**

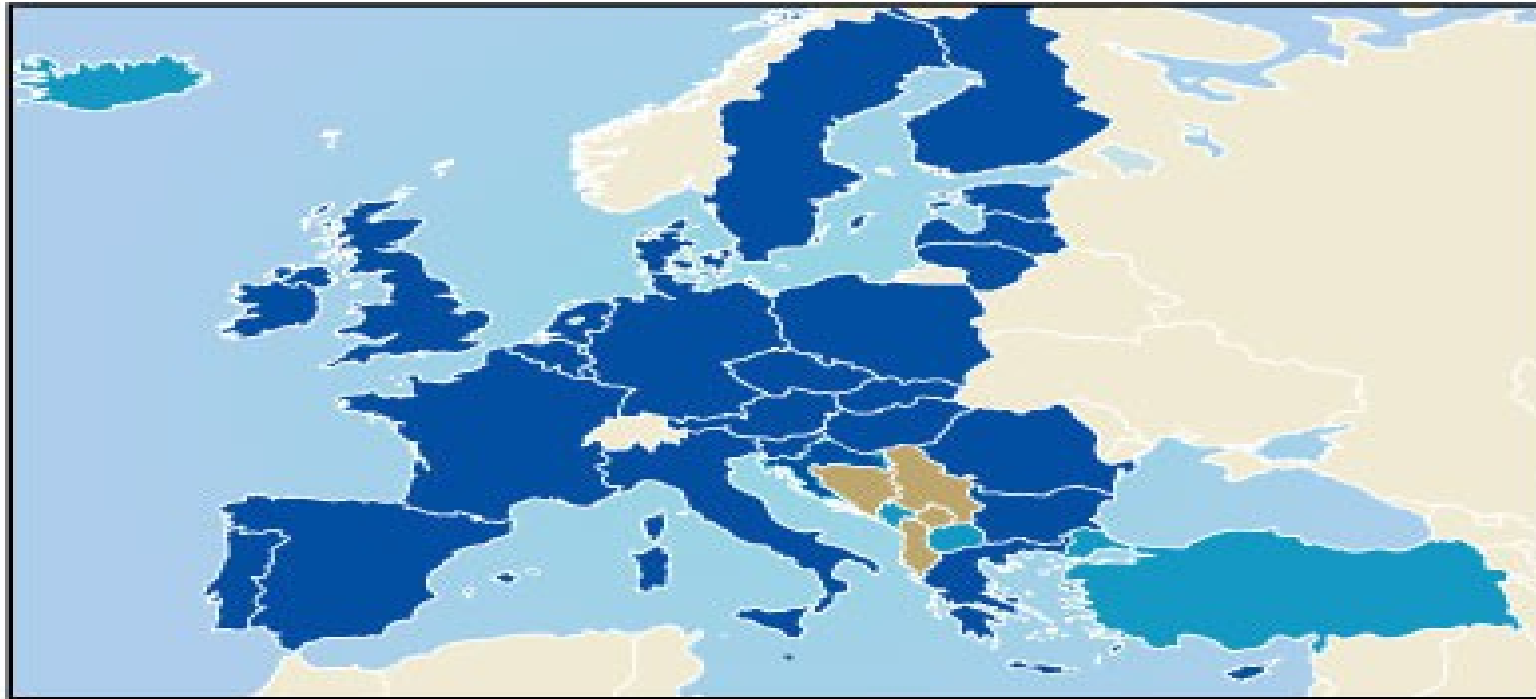
## Excise Duty rates in the European Union<sup>3</sup>

Country	Spirits £ per 70cl bottle 40% ABV	Still wine £ per 75 cl bottle 11.5% ABV	Sparkling wine £ per 75 cl bottle	Beer £ per pint 5% ABV or 12° Plato	VAT rate %
Austria	1.9	0.00	0.00	0.10	20
Belgium	3.4	0.25	0.84	0.08	21
Cyprus	1.2	0.00	0.00	0.02	15
Czech Rep.	1.8	0.00	0.43	0.04	22
Denmark	3.9	0.43		0.13	25
Estonia	1.9	0.35	0.35	0.07	18
Finland	5.5	1.10	1.10	0.38	22
France	2.8	0.02	0.04	0.05	19.6
Germany	2.5	0.00	0.27	0.04	16
Greece	2.1	0.00	0.00	0.06	18
Hungary	1.6	0.00	0.24	0.09	25
Ireland	7.6	1.42	2.84	0.39	21
Italy	1.6	0.00	0.00	0.12	20
Latvia	1.8	0.22	0.22	0.03	18
Lithuania	1.8	0.23	0.23	0.04	18
Luxembourg	2.0	0.00	0.00	0.04	15
Malta	4.5	0.00	0.00	0.04	18
Netherlands	2.9	0.31	1.05	0.10	19
Poland	2.3	0.18	0.18	0.09	22
Portugal	1.8	0.00	0.00	0.06	21
Slovakia	1.5	0.00	0.33	0.07	19
Slovenia	1.4	0.00	0.00	0.14	20
Spain	1.6	0.00	0.00	0.04	16
Sweden	10.4	1.23	1.23	0.31	25
UK	5.5	1.25	1.65	0.38	17.5

Source: European Commission's Excise Duty Tables (Alcohol Beverages), published by Europa website (January 2006)

## Question 18

**Current EU candidate countries include Croatia and Iceland**  
**False.** Croatia joined the EU in July 2013



- EU States
- Candidate countries
- Potential candidate countries

**Candidate countries: FYROM, Iceland, Montenegro, Serbia and Turkey**  
**Potential Candidate Countries: Albania, Bosnia and Herzegovina, and Kosovo**

## **Question 19**

***A country with an interest rate of 4% that joins the EMU (Eurozone) where the IR is 2% will suffer from deflation***

***False***

***A decrease in the IR makes money cheaper to borrow. Savings will decrease, borrowing and spending will increase. One of the biggest factors is the housing market.***

***This leads to an inflationary situation (prices and wages will rise)***

## **Question 20**

***The EEC preceded the ECSC that preceded the EU***

***False***

***1951 ECSC. European Coal and Steel Community  
(common market for steel and coal)***

***1958 EEC. European Economic Community  
(common market for all goods)***

***1993 EU. European Union (Maastricht Treaty)***



ANGERS • PARIS • BUDAPEST • SHANGHAI



***Your Score?***

***Questions***