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.
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](https://www.awi.uni-heidelberg.de).

**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**

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The article is about structural reforms, i.e. (policy) measures with the purpose of enhancing the supply side capacity of an economy. In particular, the article is focused on the euro area. 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. It also addresses the issue of the relationship between structural reforms and monetary policy, in particular when nominal interest rates. The euro area has become more balanced economically as a result of these measures. Gaps in competitiveness that ballooned during the first decade of the currency’s existence have since narrowed as wages have been slashed and collective-bargaining practices reformed in southern states. Almost every country—apart from France, Estonia and Spain—is now running a primary fiscal surplus (i.e., before interest payments). Political developments both within the euro area and without could restrain the economic response to the next downturn and are holding back much-needed institutional reform. Emergency action was taken during the debt crisis. A sovereign bail-out fund was cobbled together, for instance. All euro area members are sharing in the recovery now, with the differences in growth rates across countries at their lowest level since the launch of the euro in 1999. But even as the euro area economy gathers momentum, it still faces the hurdles of high public debt in some states, a lack of convergence in income levels among countries, and the need to reduce imbalances that built up before the crisis. Overcoming these requires further reforms, says the latest economic health check of the euro area. Despite the recovery, a number of euro area countries—not least, Greece, Italy, and Portugal—