

European Economics

True / False answers

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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

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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

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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

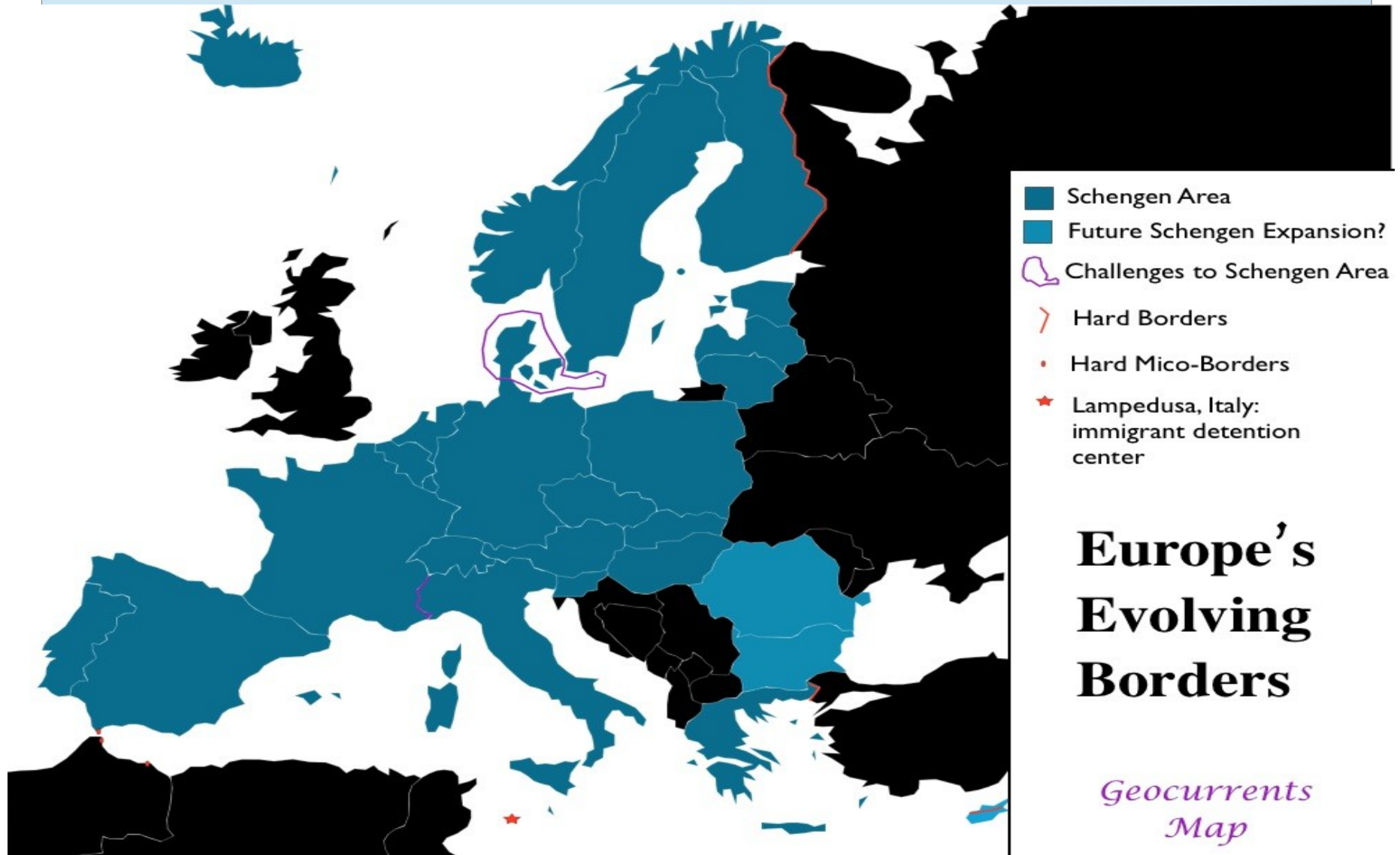
Question 7

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

About 70% of the British are against joining the Euro
True

<http://www.xe.com/currencycharts/?from=EUR&to=GBP&view=10Y>



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

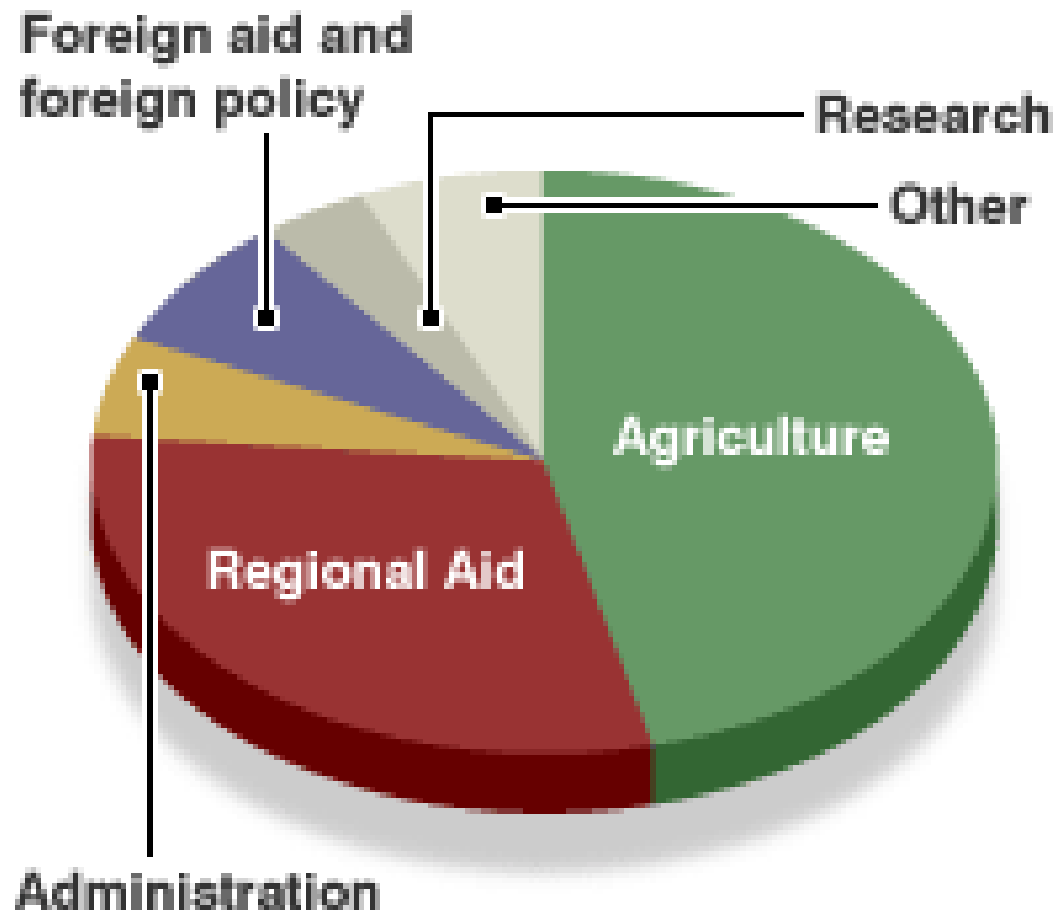
$$1,000 \times 100\text{€} = 100,000\text{€}$$

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

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 1st January 2014)

Changes in VAT Rates Since VAT Introduction, Various Countries

| Country | Original Rate | Current Rate | Percent Change |
|----------------|----------------------|---------------------|-----------------------|
| 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

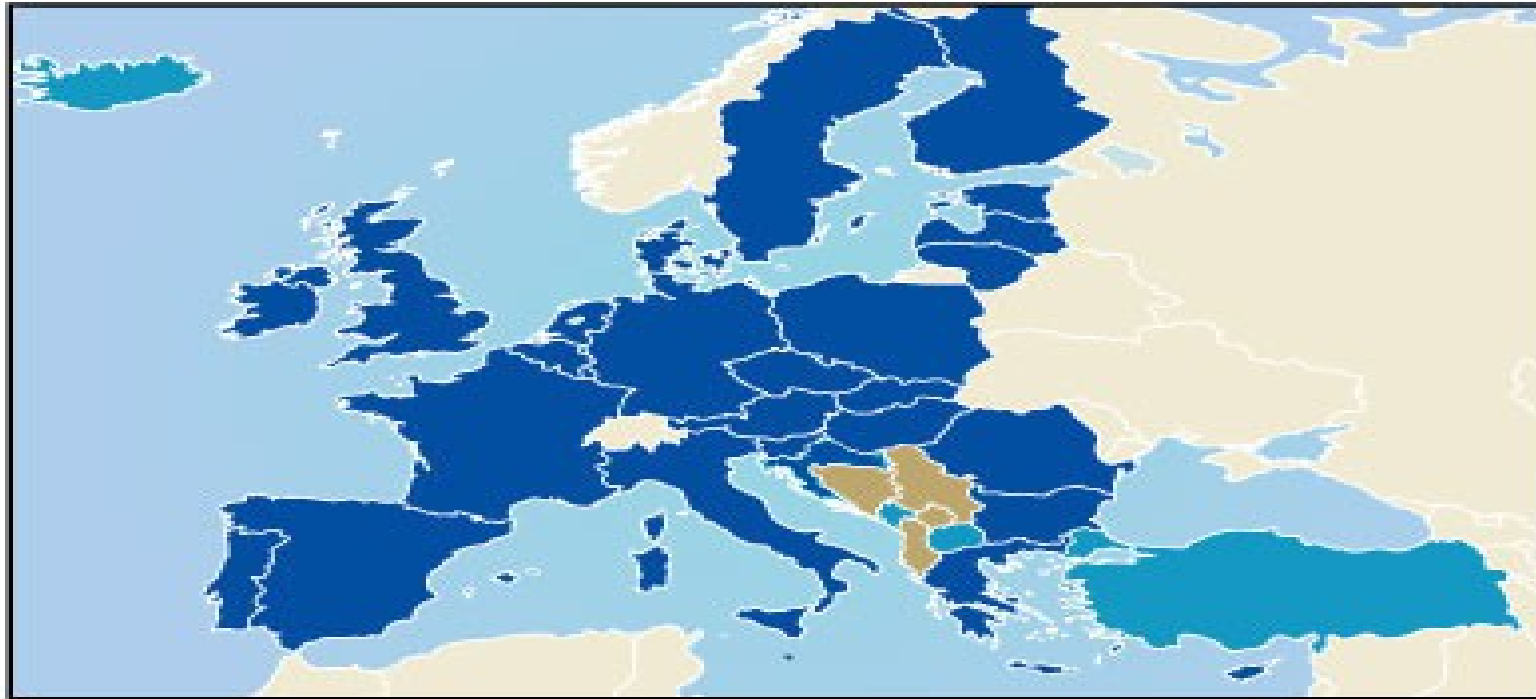
Excise Duty rates in the European Union³

| 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)



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Your Score?

Questions