

ECONOMIC INTEGRATION

Number of sessions: 30

Length of each session: 1,5 h

Total length of the module: 45 hours

OBJECTIVE

The objective of this course is to introduce the theory and different approaches of economic integration; we intend to analyze the different processes of integration to date. The course is divided in two parts: Part one elaborates on the theoretical debate on integration processes, while in part two, an analysis of the different schemes of economic integration is implemented. Special emphasis will be put on the scrutiny of the most important and successful cases of economic integration so far, *viz.*, the EU, MERCOSUR, NAFTA, and an extension to the FTAA.

REQUIREMENT

Students are required to write a short essay on a topic of their interest but that should reflect the material covered all through the course. The essay, plus presentation and discussion in class, is worth 40% of the final grade. The final exam will cover the remaining 60%.

CONTENT

Part I

1. Digression into political economy: Approaches and processes of integration
 - 1.1 Pluralist
 - 1.2 Functionalist
 - 1.3 Neo-functionalist
 - 1.4 Federalist
2. Theories of economic integration:
 - 2.1 The Viner approach
 - 2.2 Balassa's contribution to the theory of economic integration
 - 2.3 Other contributions
3. Types of integration
 - 3.1 Stages of economic integration
 - 3.2 Institutional aspects of economic integration.
 - 3.3 Fiscal and monetary requirements for a sound economic integration.
 - 3.4 Theories of "Optimum Currency Area":
 - 3.4.1 Economic integration and benefits of a fixed exchange rate area

- 3.4.2 Economic integration and benefits of a flexible exchange rate area
- 3.5 Measurement of the impact of economic integration:
 - 3.5.1 Fiscal problems in an economic union
 - 3.5.2 Monetary integration and the balance of payments
- 4. The statics of economic integration
 - 4.1 Production aspects:
 - 4.1.1 Trade creating and trade diverting effects
 - 4.1.2 Competitiveness and efficiency gain
 - 4.2 Consumption aspects:
 - 4.2.1 Terms of trade effects
 - 4.2.2 Consumption and welfare effects
 - 4.3 Perfect mobility and factor price equalization
 - 4.4 Economic effects of factor movements
- 5. Dynamics of economic integration
 - 5.1 Growth models and technological change
 - 5.2 Market size and productivity levels: Conceptual problems
 - 5.3 Market size, economies of scale and product differentiation
- 6. Regional consequences of an integrated area
 - 6.1 Location theory and regional analysis
 - 6.2 Agglomerative forces in regional development
 - 6.3 Patterns of regional development
- 7. Integration and policy issues
 - 7.1 Wage differentials within a union
 - 7.2 Social policy problems in a union
 - 7.3 Treatment of taxes
 - 7.4 Policy for stability and growth

Part II

- 8. Scrutiny of existing integration schemes
 - 8.1 MERCOSUR
 - 8.2 NAFTA
 - 8.3 The European Union
 - 8.4 Other experiences of economic integration

Suggested reading:

Alam, M.S. (2000) [Poverty from the Wealth of Nations: Integration and Polarization in the Global Economy since 1760](#). Palgrave Macmillan.

[Antoni Estevadeordal, Dani Rodrik, Alan M. Taylor, Andres Velasco](#) (2004) [Integrating the Americas: FTAA and Beyond](#). Harvard University Press.

Balassa, B. A theory of economic integration for developing countries. London George Allen and Unwin 1971.

Balassa, B. (1962) The Theory of Economic Integration. George Allen & Unwin.

[Baldwin](#), R. [Wyplosz](#), C. (2002) The Economics of European Integration. McGraw-Hill/Irwin.

Dinan, D. (1999) [Ever Closer Union: An Introduction to European Integration](#). L. RiennerPublishers.

Ghosh, P.K. (1984) [Economic Integration and Third World Development \(International Development Resource Books\)](#). Greenwood Press.

Krugman, K. and Obstfeld, M. (2002) [International Economics: Theory and Policy \(6th Edition\)](#)

Pelkmans, J. (2001) European Integration: Methods and Economic Analysis. Prentice Hall.

Reinert, K. (2004) Windows on the World Economy: An Introduction to International Economics. South-Western Thomson.

Stiglitz, J.(2003) [Globalization and Its Discontents](#). W. Norton & Company.

Some interesting websites:

<http://www.europa.eu.int/>

http://www.nafta-sec-alena.org/DefaultSite/index_e.aspx

<http://www.ftaa-alca.org/>

<http://www.mercosur.org.uy/pagina1esp.htm>

<http://www.caricom.org/>