

Economics of European Integration

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Problem Set 6

References: BW (6.ed) The Economics of European Integration Ch. 9

Exercise 1: History and Development of the Common Agricultural Policy

The Common Agricultural Policy (CAP) is a set of policies aimed at raising farm incomes in the EU. The CAP is problematic as it accounts for many of the quarrels among EU members and the EU and third nations - yet it is extremely difficult to reform.

- a. State and briefly summarize the historical development of the CAP. Focus on the issues it addressed and how these were supposed to be solved through the different rounds of reforms.
- b. A significant amount of the EU budget is allocated towards the CAP. Usually, the negotiations on the long-term budget plan involve a great deal of dispute between the member states on this issue. Explain the major points of dispute for the 2021-2027 budget plan and how these entered the new budget allocated towards the CAP.

Exercise 2: Welfare Effects of EU-CAP Price Guarantees

The CAP has different welfare implications for consumers and producers of EU member states since it directly influences prices and quantities of agricultural products. At the same time - due to its market size - any policy changes made by the EU directly or indirectly affect world markets.

- a. Graphically explain the workings of a price guarantee for an agricultural good that is imported given home was a **net importer** at world prices.
- b. What will be the effects on the different groups involved (consumers, producers, state), inside and outside the country.
- c. Imagine now, that the government decides to impose a consumption tax on agricultural goods and pay a production subsidy to farmers of the same size. How do production, imports and welfare change?
- d. Graphically explain the workings of a price guarantee for an agricultural good that is exported given home was a **net exporter** at world prices.