

1.) What is 'Political Economy'? Discuss your own view and Allen Drazen's view.

Political economy is the study of production and trade and their relations with law, customs and government; and with the distribution of national income and wealth.

Political economy, a branch of social science that studies the relationships between individuals and society and between markets and the state, using a diverse set of tools and methods drawn largely from economics, political science, and sociology.

Allan Drazen argues that the sine qua non of politics is the conflict of interests; and the core of political economy is that policies are the outcome of the interaction of competing individuals and groups whose concern is their own welfare and not necessarily that of any other individuals or the society as a whole.

2.) Why is formalisation (mathematical and algorithmic modelling) useful? What is limiting formal model-building?

Hausverstand-Antwort: Combining vast amounts of data to simulate systems and relationships in large environments. Estimating or simulating the impact of certain price changes, regulations and more can be modelled to get a better feeling of what effects these might have. (But don't forget: models are always a simplification of reality. „All models are wrong, but some are useful“) When designing models, assumptions have to be made in order to create a simpler, more abstract representation of reality. These assumptions form a big risk for bias and misinterpretation which is why a lot of thought should be put into them. One could also summarise modelling as: (1) simplification of observed data and (2) selection of observed data. Useful for forecasting, planning, present arguments in discussions, in finance (e.g. trading) Limitation is often the lack of data or the quality of data; also, assumptions often wrong/too simple: rational behaviour of people.

3.) Describe the dynamics of European Political Economy that lead to World War 1.

Characteristic of the pre-1914 decades was what we would now call globalization. Trade may have risen from 1/30 to 1/4 of world production between 1800 and 1913; between 1855 and 1914 investment flows grew 20 times. Europe accounted for nearly two-thirds of global trade and even more of global investment, and from the 1890s Europe's major currencies were fixed in value in relation to each other under the international gold standard. Hundreds of thousands of foreign-born labourers worked in the heavy industries of French Lorraine and Germany's Ruhr. A second 19th-century characteristic was democratization. By 1914 all the European Powers had elected lower houses of parliament, and a majority of the adult male population was enfranchised. The press was relatively free, and citizens could form parties and pressure groups. Nonetheless, in Austria-Hungary, Germany, and Russia ministers answered to monarchs rather than to a parliamentary majority, and the military chiefs were not subordinate to civilian statesmen. Moreover, as international tension mounted, public opinion polarized, more moderate and progressive tendencies being offset by nationalism and militarism. Europe's socialist parties opposed wars of conquest and aggression but were willing to endorse a war fought for a just cause and in self-defence, which in 1914 all the governments would claim to be fighting.

4.) What were the major challenges for non-feudal states after World War 1?

The First World War caused unprecedented disruption to societies across the globe, from Western and (especially) Central and Eastern Europe to East Africa. While many survivors could celebrate an end to war and cherish hopes for a brighter future, and while many consequences of the conflict – particularly demographic trends and family structures – may have been relatively short-term, other consequences of the war negatively affected people for years. Millions of men had to find their way back from war into civilian life in often difficult circumstances; societies were hollowed out, with the violent deaths of millions and millions not born; millions were scarred with disability and ill-health; many societies remained in a storm of violence that did not cease with the Armistice in 1918; postwar societies contained millions of people who had been uprooted; and war-related economic shocks destabilised societies for years to come. After the WW1 and especially after the Treaty of Versailles new countries were created and other were partitioned. After the WW1 the countries borders were defined on an ethnic basis. The non-feudal states had the challenge of establishing a democratic ruling system and suppress the socialist revolutions which took place.

Republics (non-feudal states) that appeared after WW1:

- German (Weimar) Republic
- First Austrian Republic
- Czechoslovak Republic
- Hungarian Republic
- Second Polish Republic
- Ukrainians People Republic
- Turkey
- Russian Soviet Republic

5.) Describe and interpret the development of nationalism.

Nationalism is a political, social, and economic ideology and movement characterized by the promotion of the interests of a particular nation, especially with the aim of gaining and maintaining the nation's sovereignty (self-governance) over its homeland. Nationalism holds that each nation should govern itself, free from outside interference (self-determination), that a nation is a natural and ideal basis for a polity, and that the nation is the only rightful source of political power (popular sovereignty). It further aims to build and maintain a single national identity—based on shared social characteristics such as culture, language, religion, politics, and belief in a shared singular history—and to promote national unity or solidarity.

Through the 19th century, Europe was swept by a wave of nationalism, which led to revolutions and wars for unification and independence. Countries like Italy and Germany were formed by uniting various regional states with common national identity, others like Poland, Romania, Greece were formed by waging wars against the Ottoman Empire and the Russian Empire. Nationalism played a huge role also in the aftermath of WWI when at the treaty of Versailles, the borders for the countries were defined based on national identity. Nationalism grew fast in the minorities of large empires. For example Greeks and Albanians under the Ottomans, Poles in the Russian Empire, Romanians in both Austria-Hungary and Ottoman Empire. The rise of Serbian Nationalism inside Austrian-Hungary led to Franz Ferdinand's assassination and to the WW1.

Nationalism led to the dissolution of multicultural empires (Austria-Hungary, Ottoman Empire, Russian Empire) and the creation of modern European countries. Without the wave

of nationalism which swept Europe starting with the 19th century, today's Europe would look totally different.

6.) What happened in the 'Great Depression'?

"Black Thursday," October 24, 1929. Over the next four days, stock prices fell 23% in the stock market crash of 1929. The stock market had been troubled well before October, however; in August of 1929, stocks were overvalued despite rising unemployment and declining production.

The Great Depression affected all aspects of society. By its height in 1933, unemployment had risen from 3% to 25% of the nation's workforce. Wages for those who still had jobs fell. The Consumer Price Index fell 27% between November 1929 to March 1933, according to the Bureau of Labor Statistics.

Panicked government leaders passed the Smoot-Hawley tariff in 1930 to protect domestic industries and jobs, but it actually worsened the issue. World trade plummeted 66% as measured in U.S. dollars between 1930 and 1932. Global financial distress had significant geopolitical ramifications. Hyperinflation and other economic woes in Germany, for instance, arguably contributed to Hitler's rise

Causes:

1. The Fed began raising the fed funds rate in the spring of 1928. It kept increasing it through a recession that started in August 1929.
2. When the stock market crashed, investors turned to the currency markets. At that time, the gold standard supported the value of the dollars held by the U.S. government. Speculators began trading in their dollars for gold in September 1931. That created a run on the dollar.
3. The Fed raised interest rates again to preserve the dollar's value. That further restricted the availability of money for businesses. More bankruptcies followed.
4. The Fed did not increase the supply of money to combat deflation.
5. Investors withdrew all their deposits from banks. The failure of the banks created more panic. The Fed ignored the banks' plight. This situation destroyed any of consumers' remaining confidence in financial institutions. Most people withdrew their cash and put it under their mattresses. That further decreased the money supply.

7.) Describe the rise of Fascism; politically and economically.

The economic depression that follows the 1929 stock market crash has a dramatic impact on European and American nations. In a climate of social turmoil and high unemployment, Marxist and Socialist parties rise against right-wing industrialists often supported by the Church. Taking advantage of the social and political crisis affecting Italy after the First World War, Benito Mussolini puts in place the Fascist regime, a totalitarian doctrine that combines nationalistic, productivist and elitist ideas. As long as the innate violence of this regime remains invisible, Mussolini will find many admirers, impressed by his ambitious public works programs and by the appearance of order and discipline which he has imprinted upon his country. Germany, humiliated by the Treaty of Versailles, stripped of its colonies and forced to compensate the allies for war damages, is also facing a major crisis. The economic situation results in a severe depression, which for many exemplifies the failure of capitalism. The National Socialist Party of German Workers (Nationalsozialistische Deutsche Arbeiterpartei or NSDAP) strikes an alliance with extreme-right industrialists to counter the

rise of communism. The NSDAP, or Nazi Party, is ruled by a charismatic leader, Adolf Hitler, who inflames the crowds by promising a strong Germany, freed from the humiliation of the Treaty of Versailles and reconciled with its past military grandeur. Through propaganda, manipulation and terror, Hitler eliminates all forms of opposition and on January 30, 1933, is named Chancellor.

- Concentrated on the state (nationalistic) - Based on social classes - Talking about the great history (ex: Mussolini talking about the Roman Empire) - The group is more important than the individual

8.) Summarize the most important dynamics and results of World War 2.

Immediate effects:

- Millions dead & million of homeless - European economy collapsed - European infrastructure destroyed - 1947 Marshall Plan for the reconstruction of Western Europe

Long term effects:

- USA became a superpower - Germany was split between the Allies - East-Europe, the Balkans and East Germany had the "honor" of experimenting communism and its effects can be still seen today

- Development of the term and sentiment of "western betrayal" - Ribbentrop-Molotov was updated: the soviet union received what was in the pact and even more, the rest of Europe was in the hands of UK&USA - Building the path for the cold war - Building the path for the Ukrainian genocide - Building the path for gulags and other "wonderful" communist gifts - The creation of Israel => long-lasting conflict in the middle east

9.) What is a 'Colonel Blotto Game'? Describe the relevance of this formalisation for wars between firms.

Colonel Blotto game (divide-a-dollar game) is a type of two-person zero-sum game in which the players are tasked to simultaneously distribute limited resources over several objects (or battlefields). In the classic version of the game, the player devoting the most resources to a battlefield wins that battlefield and the gain (or payoff) is then equal to the total number of battlefields won.

- Is an example of a game in which "the psychology of the players matters" - It was studied after the Second World War by scholars in Operation Research, and became a classic in game theory

The game is named after the fictional Colonel Blotto from Gross and Wagner's 1950 paper. The Colonel was tasked with finding the optimum distribution of his soldiers over N battlefields knowing that:

1. on each battlefield the party that has allocated the most soldiers will win, but 2. neither party knows how many soldiers the opposing party will allocate to each battlefield, and: 3. both parties seek to maximize the number of battlefields they expect to win.

This game is commonly used as a metaphor for electoral competition, with two political parties devoting money or resources to attract the support of a fixed number of voters. Each voter is a "battlefield" that can be won by one or the other party. The same game also finds application in auction theory where bidders must make simultaneous bids.

10.) Characterize the period of reconstruction. What is Integrated Capitalism?

1946-1970

Different International institutions where founded:

Bretton Woods System (1944)

General Agreement on Tariffs and Trade, GATT (1947)

International Monetary Fund (IMF) and Worldbank

UNO

NATO (1949)

OEEC (Marshall-Plan) later develops into OECD (1961)

Reconstruction period lasted from 1946 to 1970; it was internationally characterised by the bipolar conflict between USA and the Sowjet Union and furthermore by the integration of western Europe under the dominance of USA. Some key consequences and results of this period was the integration of the labour movement across Europe and therefore the development of a social market economy. Also, thanks to a strong economic boom, the European economies became stronger and more independent posing a competition to the North American as well as Japanese economy. This boom was made possible by international efforts to rebuild the European Economy like the Marshall-Plan. Integrated capitalism is based on the idea of an institutional framework that allows stable exploitation on a national level and tries to integrate and involve app parts of society in the economic processes. A result of this period are also some global institutions which are still active today (UNO, NATO etc.)

11.) What was the Bretton Woods System and why was it implemented?

The Bretton Woods System of monetary management established the rules for commercial and financial relations among the United States, Canada, Western Europe countries, Australia, and Japan after the 1944 Bretton Woods Agreement. The Bretton Woods system was the first example of a fully negotiated monetary order intended to govern monetary relations among independent states. The chief features of the Bretton Woods system were an obligation for each country to adopt a monetary policy that maintained its external exchange rates within 1 percentage by tying its currency to gold and the ability of the IMF to bridge temporary imbalances of payments. Also, there was a need to address the lack of cooperation among other countries and to prevent competitive devaluation of the currencies as well.

It was created a system of rules, institutions, and procedures to regulate the international monetary system, these accords established the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD), which today is part of the World Bank Group. The political basis for the Bretton Woods system was in the confluence of two key conditions: the shared experiences of two World Wars, with the sense that failure to deal with economic problems after the first war had led to the second; and the concentration of power in a small number of states.

- exchange rate stability was a prime goal - Rested on \$ and gold - Since 1971 (Nixon) only on \$ => \$ became reserve currency for many states

12.) Describe the institutional development of European institutions in the period of reconstruction.

After WW2 various international institutions have been created in order to try to prevent the existence of another world war. The (Robert) Schumann Declaration in 1950 proposed to put

French and German production of steel and coal under one high authority. This organization would be open to the participation of Western European countries.

- Common Assembly of European Coal and Steel Community - 1952
 - European Parliament since 1962
 - 6 countries: Belgium, France, Luxembourg, Italy, Netherlands and West Germany
 - Regulate their industrial production under a centralized authority
 - Exercised supervisory powers over the executive
 - Not mentioned in the Schuman Declaration, but put forward by Jean Monet
- High Authority (now the European Commission) - 1951 Treaty of Paris
 - First supranational body
 - Served as the community's executive
 - Jean Monet was the first president
- The Court of Justice
 - Ensure the observation of the ECSC law along with the interpretation and implementation of the treaty
 - 7 judges - no requirement of their nationality
 - Was assisted by two advocates general
- Consultative Committee
 - Now Economic and Social Committee
 - Between 30-50 members equally divided between producers, workers, consumers and dealers of the coal and steel sector
 - was in permanent dialogue with the High Authority on policy and proposals for legislation
 - Its Opinions were necessary before such action could take place
 - Its existence curtailed the activity of lobbyists acting to influence governments on such policy.

13.) Does the youth revolt of the sixties have a lasting influence on Europe's political economy?

The sixties was a time of both cultural and political revolution. It changed the way many people thought of society and moral values. The youth were responsible for branding the entire decade as one of the fight for racial equality, the birth of the hippies, and political activism.

- The new left - Criticized the old left for the aftermath of ww2 - New left moved from labour activism (old left) to social activism - Ideas like: social ecology, autonomism, participatory economics, inclusive democracy. The European political economy has been heavily influenced by the youth revolt of the 60' and started to move towards social ideas and ecological ideas.

14.) Describe the first phase of conservative restoration. Why did the two oil crisis have a global impact?

Many of them, revered in "progressive" American circles, hold on to hope that the Barack Obama administration will be more responsive to pressure from the left, even though his electoral program was far from including measures which even resembled the New Deal and that he has been one of the biggest defenders of the bank rescue program finally approved by Congress. His economic advisors for the transition are former members of the Clinton

administration, under which the economy continued in the parameters imposed by the conservative restoration of Reagan and Bush I, or multi-millionaires like Warren Buffet. Although this escalation has external dimensions—most notably the collapse of world market prices for products such as coffee, cocoa and phosphates—its roots decidedly lie in the internal and political problems of unrest based on a democratization that is incomplete and has actually been flagging since 1991-1994. This decline has seen a nine-month general strike in 1992-1993 which contributed to a more than 20 % drop in GNP within two years, and a conservative restoration without any real prospect of international recognition. The restoration was characterized by repeatedly rigged elections, leading to a hardening in domestic politics and a mounting loss of legitimacy for political office holders.

There has been a noteworthy escalation of conservative restoration in the last three years since limits were imposed upon press freedom by the Press Code Reform of 2000 (lèse-majesté as an offence), justifying the term post-dictature. However, a complete dissolution of these freedoms and a return to the former totalitarian state seems unlikely in view of Togo's situation and international public opinion.

The institutional and private innovation and learning capacity of both the political elite and the population is obvious. The "politics of survival" has enabled a conservative restoration while

retaining a formal democratic facade through the growing informalization of Togo's international economic relations as well as the polarization of political life in ethno-regional terms and the strategic use of force.

- 1st conservative restoration in the 1920s - 2nd conservative restoration in the late 20th century

15.) Which events started the second phase of conservative restoration? What is your interpretation for the reasons of this break?

(<https://www.sunypress.edu/pdf/61292.pdf>)

The 2nd conservative restoration has been in the late 20th century: Began with the political realm of society with such events as the signing of civil rights and voting rights laws in 1964, implementation of Richard Nixon's "southern strategy" that successfully incorporated the Dixiecrats into the Republican Party, the subsequent election of Ronald Reagan, which in turn set the stage for the "dixification" of the U.S. economy and culture, and the election of a fundamentalist Christian president.

As Apple (2001) and others (e.g. Miller, 1995) have discussed, the ramifications of this restoration include (among other things): public-supported vouchers for children going to private schools, high-stakes testing, legislation of curriculum content, emphasis on drilling and memorization, internal racial segregation through tracking, the deskilling of teachers.

16.) What are the major features of the 'European Social Model'?

- fundamental social rights, including freedom of association, the right to strike, protection against unjustified dismissal, fair working conditions, equality and non-discrimination;

- social protection, delivered through highly developed universal systems, and wealth redistribution measures such as minimum income or progressive taxation;

- social dialogue, with the right to conclude collective agreements, to workers' representation and consultation, and national and European Works Councils;

- social and employment regulation, covering, for example, health and safety, limits on

working time, holidays, job protection and equal opportunities;

- state responsibility for full employment, for providing services of general interest, and for economic and social cohesion.

17.) Sketch the deep global crisis in 2008 with a brief text as well as with some underpinning developments of quantitative economic indicators.

Causes:

- GREED - The large housing bubble exploded => mortgages couldn't be paid => houses values collapsed - Easy credit conditions: lower interest rates encouraged the public to borrow - Weak and fraudulent underwriting practices - Increased debt burden or overleveraging => prior to the crisis, financial institutions became highly leveraged, increasing their appetite for risky investments and reducing their resilience in case of losses. Much of this leverage was achieved using complex financial instruments such as off-balance sheet securitization and derivatives, which made it difficult for creditors and regulators to monitor and try to reduce financial institution risk levels. These instruments also made it virtually impossible to reorganize financial institutions in bankruptcy and contributed to the need for government bailouts.

- Incorrect pricing of risks => Mortgage risks were underestimated by almost all institutions in the chain from originator to investor by underweighting the possibility of falling housing prices based on historical trends of the past 50 years. Limitations of default and prepayment models, the heart of pricing models, led to overvaluation of mortgage and asset-backed products and their derivatives by originators, securitizers, broker-dealers, rating-agencies, insurance underwriters and the vast majority of investors (with the exception of certain hedge funds).

- Boom and collapse of the shadow banking system => There is strong evidence that the riskiest, worst performing mortgages were funded through the "shadow banking system" and that competition from the shadow banking system may have pressured more traditional institutions to lower their own underwriting standards and originate riskier loans.

- Commodity Boom => Rapid increases in a number of commodity prices followed the collapse in the housing bubble. The price of oil nearly tripled from \$50 to \$147 from early 2007 to 2008, before plunging as the financial crisis began to take hold in late 2008

Impacts:

- US stock market => the US stock market peaked in October 2007, when the Dow Jones Industrial Average index exceeded 14,000 points. It then entered a pronounced decline, which accelerated markedly in October 2008. By March 2009, the Dow Jones average had reached a trough of around 6,600. Four years later, it hit an all-time high. It is probable, but debated, that the Federal Reserve's aggressive policy of quantitative easing spurred the partial recovery in the stock market

- Financial institutions => The first notable event signaling a possible financial crisis occurred in the United Kingdom on August 9, 2007, when BNP Paribas, citing "a complete evaporation of liquidity", blocked withdrawals from three hedge funds. The significance of this event was not immediately recognized but soon led to a panic as investors and savers attempted to liquidate assets deposited in highly leveraged financial institutions.

- The crisis rapidly developed and spread into a global economic shock, resulting in a number of European bank failures, declines in various stock indexes, and large reductions in the market value of equities - Several commentators have suggested that if the liquidity crisis

continues, an extended recession or worse could occur. The continuing development of the crisis had prompted fears of an impending global economic collapse. The financial crisis is likely to yield the biggest banking shakeout since the savings-and-loan meltdown.

Investment bank UBS stated on October 6 that 2008 would see a clear global recession, with recovery unlikely for at least two years. Three days later UBS economists announced that the "beginning of the end" of the crisis had begun, with the world starting to make the necessary actions to fix the crisis: capital injection by governments; injection made systemically; interest rate cuts to help borrowers. The United Kingdom had started systemic injection, and the world's central banks were now cutting interest rates. UBS emphasized the United States needed to implement systemic injection. UBS further emphasized that this fixes only the financial crisis, but that in economic terms "the worst is still to come". UBS quantified their expected recession durations on October 16: the Eurozone's would last two quarters, the United States' would last three quarters, and the United Kingdom's would last four quarters. The economic crisis in Iceland involved all three of the country's major banks. Relative to the size of its economy, Iceland's banking collapse is the largest suffered by any country in economic history. - At the end of October UBS revised its outlook downwards: the forthcoming recession would be the worst since the early 1980s recession with negative 2009 growth for the US, Eurozone, UK; very limited recovery in 2010; but not as bad as the Great Depression

- The World Bank reported in February 2009 that the Arab World was far less severely affected by the credit crunch. With a generally good balance of payments positions coming into the crisis or with alternative sources of financing for their large current account deficits, such as remittances, Foreign Direct Investment (FDI) or foreign aid, Arab countries were able to avoid going to the market in the latter part of 2008.

Government responses:

- the US Federal Reserve and central banks around the world took steps to expand money supplies to avoid the risk of a deflationary spiral, in which lower wages and higher unemployment led to a self-reinforcing decline in global consumption. In addition, governments enacted large fiscal stimulus packages, by borrowing and spending to offset the reduction in private sector demand caused by the crisis. The US Federal Reserve's new and expanded liquidity facilities were intended to enable the central bank to fulfil its traditional lender-of-last-resort role during the crisis while mitigating stigma, broadening the set of institutions with access to liquidity, and increasing the flexibility with which institutions could tap such liquidity - This credit freeze brought the global financial system to the brink of collapse. The response of the Federal Reserve, the European Central Bank, the Bank of England and other central banks was immediate and dramatic. During the last quarter of 2008, these central banks purchased US\$2.5 trillion of government debt and troubled private assets from banks. This was the largest liquidity injection into the credit market, and the largest monetary policy action, in world history. Following a model initiated by the United Kingdom bank rescue package, the governments of European nations and the US guaranteed the debt issued by their banks and raised the capital of their national banking systems, ultimately purchasing \$1.5 trillion newly issued preferred stock in their major banks

18.) Describe the major reasons for the migration crisis in 2015.

- The turmoils during the Arab spring created a power vacuum in several countries like Libya and Syria.

- ISIS and Al Qaida could rise to power because of the postwar order in Iraq and the lack of state power in Syria and Libya. - Taliban in Afghanistan also gain to old strength in some regions of the country. - Boko Haram etc rose to power

19.) How will BREXIT or NO BREXIT have an impact on the European Union?

Ideological shift:

- UK is the 3rd most populous state => major influence in the parliament
- In the council UK was a member of the liberal bloc => the liberal bloc will be weakened in front of the protectionist bloc - Smaller parliament and more socialist, as the majority of the British MPs were right-leaning

Defence & foreign affairs:

- UK is Europe's largest military power - Without it EU won't be that influential in foreign affairs - New opportunities for the European Army (European defence cooperation) as the UK always vetoed this initiative, because they undermine NATO

Institutions:

- The UK hosted two EU institutions (European Medicines Agency & European Banking Authority) - They must be moved from there

Language:

- English would probably be kept as an official language of the EU, due to the fact it's commonly used internationally. Especially communication in international trade, is relying heavily on the English language.
- Ireland will suffer the most => they trade the most with the UK

Actual effects so far:

UK is no longer part of the free roaming agreement of the EU
 Until 2021 no effects on the common market - no tariffs on trade goods yet.
 Until end of 2020 there is a period to negotiate agreements how relationship will continue.
 free trade/tariffs

20.) Which impact did the election of Donald Trump have on the European Union?

- Punitive tariffs
- The unity of the union increased (claims from BBC, CNN & co)
- Cancelled the so-called TTIP (Transatlantic Trade and Investment Partnership) trade pact.
- Threatened to tear up Nato's mutual defence pact if EU nations did not spend more money. This also led to the fact, that EU countries are now forced to develop faster own defence capacities and legal entities like a EU army.
- Trump pulled out of the Paris agreement on climate change mitigation
- The new US leader also threatened to tear up an EU-sponsored deal on Iran's nuclear proliferation, opening up multiple fronts of disagreement

21.) What are drivers and dangers of nationalism?

According to Ernest Gellert, nationalism is a political principle which holds that the political and the national unit should be congruent.

One driver that originates from within a nation is, when a ruler/political figure is of a different ethnicity than the majority of the inhabitants of that nation. Another are migrant workers, which work in the nation due to better economic prospects. Due to migration the population

can develop fears that their national way of life is endangered due to foreign influence. Also fear to lose the job due to cheap foreign workers replacing them.

Dangers: isolation of the nation and therefore not using benefits of international cooperation/globalisation.

Prioritizing the nationalist interest over basic human rights. Building up a legal/political system which discriminates against "foreigners". More severe consequences like killings of other ethnicities (ruanda, serbia/bosnia, turkey - kurds)

22.) What impact can be expected from the digital revolution?

The Digital Revolution, also known as the Third Industrial Revolution, is the shift from mechanical and analogue electronic technology to digital electronics.

Economic impact:

- Very large => the internet enabled an easy way for outsourcing and globalization - Changed the way people and companies interact - Smaller regional companies were given access to larger markets => increased demand

Negative impacts:

- Information overload, social predators, forms of social isolation and media saturation - Privacy invasion at work through keystroke recording and spyware/content-control applications - Privacy became a concern - Social revolution via social media platforms

23.) Is Keynes opinion on the influence of ideologies on political economy correct? Is there historical progress?

Keynesian economics focuses on demand-side solutions to recessionary periods. The intervention of government in economic processes is an important part of the Keynesian arsenal for battling unemployment, underemployment and low economic demand. The emphasis on direct government intervention in the economy places Keynesian theorists at odds with those who argue for limited government involvement in the markets. Lowering interest rates is one-way governments can meaningfully intervene in economic systems, thereby generating active economic demand. Keynesian theorists argue that economies do not stabilize themselves very quickly and require active intervention that boosts short-term demand in the economy.

24.) Describe Pareto Optimality with the help of an Edgeworth Box.

Pareto optimality is a state of allocation of resources from which it is impossible to reallocate so as to make any one individual or preference criterion better off without making at least one individual or preference criterion worse off. "Pareto efficiency" is considered as a minimal notion of efficiency that does not necessarily result in a socially desirable distribution of resources: it makes no statement about equality, or the overall well-being of a society. It is simply a statement of impossibility of improving one variable without harming other variables in the subject of multi-objective optimization. In economics, an Edgeworth box, named after Francis Ysidro Edgeworth, is a way of representing various distributions of resources. A definition can also be made in two steps: - a change from situation A to B is a Pareto improvement if at least one individual is better off without making other individuals worse off; - B is Pareto optimal if there is no possible Pareto improvement.

25.) What does convexity of indifference curves mean and why is it assumed?

They are convex to the origin. As the consumer substitutes commodity X for commodity Y, the marginal rate of substitution diminishes as X for Y along an indifference curve. The Slope of the curve is referred as the Marginal Rate of Substitution. The Marginal Rate of Substitution is the rate at which the consumer must sacrifice units of one commodity to obtain one more unit of another commodity.

If two commodities are perfect complements, the indifference curve will have a right angle. In reality, commodities are not perfect substitutes or perfect complements to each other. Therefore MRS_{xy} usually diminishes.

26.) Describe the main characteristics of the optimization processes used in the market oriented paradigm.

Pareto optimization is an area of multiple criteria decision making that is concerned with mathematical optimization problems involving more than one objective function to be optimized simultaneously. The optimization process tries to achieve the ideal contract curve and at each step, it tries to change the allocation (move along the indifferent curves) in such a way that no one is harmed and at least one individual is helped.

27.) Summarize advantages and critique of a market oriented economy.

A market-oriented economy, society, system etc is one with free markets where people can buy and sell freely and where most companies are not owned by the state. Market-oriented activities are designed to lead to a more market-oriented economy. A company that is market-oriented tries to design and sell products that satisfy customers' needs. the decisions regarding investment, production, and distribution are guided by the price signals created by the forces of supply and demand.

Critique:

- The economist Joseph Stiglitz argues that the markets suffer informational inefficiency and the faulty assumption of neoclassical welfare economics, particularly the assumption of perfect and costless information and related incentive problems
- J.S. states that the government must intervene in order to boost the efficiency of markets
- Robin Hahnel and Michael Albert claim that "markets inherently produce class division."
- Albert states that even if everyone started out with a balanced job complex (doing a mix of roles of varying creativity, responsibility and empowerment) in a market economy, class divisions would arise
- David McNally arguing in the Marxist tradition that the logic of the market inherently produces inequitable outcomes and leads to unequal exchanges - Market economies tend to produce inferior goods and services => due to cost-profit balance optimization
- It harms the environment - Outsourcing is frequent in a market economy - Commodity (agricultural products, coffee, copper, etc) prices typically rise in a market economy - Economy imbalances occur frequently within a market economy due to lack of regulations (2007-2009 crises occurred due to lack of regulations)

Advantages:

- It provides society with the right goods or services at the right time - A market economy promotes entrepreneurship - It creates competition => innovation - It reduces the need to store products - Market economies tend to provide more jobs - Prices are usually kept down in a market economy

28.) Mention 3 technical extensions of the simple market oriented paradigm and 3 areas where it fails to explain relevant empirically observed phenomena.

Failiures: market failure when it comes to public goods → government must provide those labour market - a macro-economic perspective is usually used to explain how the labour market behaves. many additional factors influence developments there, for example labour policies, strength of unions;

29.) What is the basic methodological difference between the market oriented paradigm and the Marx' paradigm.

Marxism is a method of socioeconomic analysis that views class relations and social conflict using a materialist interpretation of historical development and takes a dialectical view of social transformation. Marxism uses a methodology, now known as historical materialism, to analyze and critique the development of capitalism and the role of class struggles in systemic economic change. Marx theorized that the gap between the value a worker produces and his wage is a form of unpaid labour, known as surplus value. Marx paradigma can be summarized to; communism, a stateless and classless society where there is common ownership of the means of production and; goods and services would be distributed "to each according to his need, from each according to his ability."

30.) What is an input output table? Use the IO-framework to describe a simple form of the labour theory of value.

An input-output table is a means of presenting a detailed analysis of the process of production and the use of goods and services (products) and the income generated in that production.; In economics, an input-output model (framework) is a quantitative economic model that represents the interdependencies between different branches of a national economy or different regional economies.

$$c + L = W$$

- c is the constant capital of materials used in a period plus the depreciated portion of tools and plant used in the process - L is the quantity of labour time (average skill and productivity) performed in producing the finished commodities during the period
- W is the value (or think "worth") of the product of the period

31.) Describe two variants of alienation.

As a socio-psychological concept alienation is very useful. A growing interest in alienation by contemporary sociologists is bringing about a corresponding increase in empirical studies on alienation. Melvin Seeman has 5 variants of alienation: powerlessness, meaninglessness, normlessness, isolation and self-estrangement. Powerlessness, a popular variant, is derived from Marx and his thesis about the condition of workers in a capitalist system. The worker feels that "his prerogatives and means of the decision are expropriated by the ruling

entrepreneurs." Hence powerlessness would be that feeling of futility over the outcome of events. Meaninglessness is viewed as that situation when the individual is "unclear as to what he might believe in." Normlessness is the loss of social standards. Isolation describes the individual's feeling of "apartness from society." Self-estrangement occurs when the individual has lost pride in his work." Erich Fromm speaks of this as that experience of a person who considers himself an alien and estranged from himself."

32.) What is the 'transformation problem'? What is the 'reduction problem'? Are they relevant?

the transformation problem is the problem of finding a general rule by which to transform the "values" of commodities (based on their socially necessary labour content, according to his labour theory of value) into the "competitive prices" of the marketplace. The essential difficulty was this: given that Marx derived profit, in the form of surplus value, from direct labour inputs, and that the ratio of direct labour input to capital input varied widely between commodities, how could he reconcile this with the tendency toward an average rate of profit on all capital invested?

Reduction problem = the rise of income share by one class should be exactly offset by the reduction of income share by the other class

A very big stumbling block to most people who study the early part of Marx's Capital is the so-called skilled labour reduction problem, which deals with the reduction of skilled labour to a multiple of simple labour, or of average labor, or of unskilled labour. Marx says that "experience shows that this reduction is constantly being made" and that the reductions are established by 'a social process that goes on behind the backs of the producers, and consequently, appears fixed by custom.'" As to what this invisible social process consists of, he is silent."

"The reduction problem arises in the context of 'reducing' the value of skilled to unskilled labour, as part of the labour theory of value in Marxian economics. The existence of a practical and realistic solution to this problem, consistent with the assumptions of the labour theory of value itself, has been questioned."

33.) State three typical critiques of the empirical validity of Marx' paradigm? What would be your personal most severe point of critique?

- Democratic socialists and social democrats reject the idea that socialism can be accomplished only through class conflict and a proletarian revolution
- Some critics of utopian or egalitarian socialism argue that income sharing reduces individual incentives to work and therefore incomes should be individualised as much as possible.
- John Kenneth Galbraith has criticised communal forms of socialism that promote egalitarianism in terms of wages/compensation as unrealistic in its assumptions about human motivation
- Vladimir Karpovich Dmitriev writing in 1898, Ladislaus von Bortkiewicz writing in 1906–1907 and subsequent critics have alleged that Karl Marx's value theory and the law of the tendency of the rate of profit to fall are internally inconsistent. In other words, the critics allege that Marx drew conclusions that actually do not follow from his theoretical premises. Once those errors are corrected, Marx's conclusion that aggregate price and profit are determined by—and equal to—aggregate value and surplus value no longer holds true.

- Marxism has been criticized as irrelevant, with many economists rejecting its core tenets and assumptions. John Maynard Keynes referred to Capital as "an obsolete textbook which I know to be not only scientifically erroneous but without interest or application for the modern world".

- Various economists have argued that a socialist state would by its very nature erode the rights of its citizens. The American economist Milton Friedman argued that under socialism the absence of a free market economy would inevitably lead to an authoritarian political regime. Friedman's view was also shared by Friedrich Hayek, who also believed that capitalism is a precondition for freedom to flourish in a nation state

34.) Provide a short description of the historical upcoming of Fascism in the interwar period.

Politically, this era coincided with the rise of communism, starting in Russia with the October Revolution, at the end of World War I, and ended with the rise of fascism, particularly in Germany and in Italy. Democracy and prosperity largely went together in the 1920s. Economic disaster led to a distrust in the effectiveness of democracy and its collapse in much of Europe, including the Baltic and Balkan countries, Poland, Spain, and Portugal. Powerful expansionary dictatorships emerged in Italy, Japan, and Germany. While communism was tightly contained in the isolated Soviet Union, fascism took control of Italy in 1922; as the Great Depression worsened, fascism emerged victorious in Germany and played a major role in numerous countries in Europe and several in Latin America. Fascist parties sprang up, attuned to local right-wing traditions, but also possessing common features that typically included extreme militaristic nationalism, a desire for economic self-containment, threats and aggression toward neighboring countries, oppression of minorities, a ridicule of democracy while using its techniques to mobilize an angry middle-class base, and a disgust with cultural liberalism. Fascists believed in power, violence, male superiority, and a "natural" hierarchy, often led by dictators such as Benito Mussolini or Adolf Hitler. Fascism in power meant that liberalism and human rights were discarded, and individual pursuits and values were subordinated to what the party decided was best.

35.) Characterize the Fascist paradigm. Is it still a danger for the evolution of democracy?

Fascism is a form of radical authoritarian ultranationalism, characterized by dictatorial power, forcible suppression of opposition and strong regimentation of society and of the economy, which came to prominence in early 20th-century Europe. The first fascist movements emerged in Italy during World War I before it spread to other European countries. Fascists believe that liberal democracy is obsolete and they regard the complete mobilization of society under a totalitarian one-party state as necessary to prepare a nation for armed conflict and to respond effectively to economic difficulties. Fascists advocate a mixed economy, with the principal goal of achieving autarky (national economic self-sufficiency) through protectionist and interventionist economic policies.

36.) Sketch the contrast between humanism and racism.

Humanism is a philosophical and ethical stance that emphasizes the value and agency of human beings, individually and collectively, and generally prefers critical thinking and evidence (rationalism and empiricism) over the acceptance of dogma or superstition.

Racism is the belief in the superiority of one race over another, which often results in discrimination and prejudice towards people based on their race or ethnicity. The ideology underlying racism often includes the idea that humans can be subdivided into distinct groups that are different due to their social behaviour and their innate capacities as well as the idea that they can be ranked as inferior or superior.

Humanism emphasizes the general concept of human beings, but racism emphasizes only with one human race, with its own, considering the other races inferior and discriminates them.

37.) List all EU countries and all members of the Eurozone.

Austria - Eurozone

- Belgium - Eurozone
- Bulgaria
- Croatia
- Cyprus - Eurozone
- Czech Republic
- Denmark
- Estonia - Eurozone
- Finland - Eurozone
- France - Eurozone
- Germany - Eurozone
- Greece - Eurozone
- Hungary
- Ireland - Eurozone
- Italy - Eurozone
- Latvia - Eurozone
- Lithuania - Eurozone
- Luxembourg - Eurozone
- Malta - Eurozone
- Netherlands - Eurozone
- Poland
- Portugal - Eurozone
- Romania
- Slovakia - Eurozone
- Slovenia - Eurozone
- Spain - Eurozone
- Sweden - Eurozone

UK left in Jan 2020

38) Discuss the latest forecasts for unemployment, growth and interest rates in Europe.

- Growth in the euro area is forecast to ease from a 10-year high of 2.4% in 2017 to 2.1%

in 2018 before moderating further to 1.9% in 2019 and 1.7% in 2020. - The same pattern is expected for the EU27, with growth forecast at 2.1% in 2018, 2.0% in 2019 and 1.9% in 2020.

- FocusEconomics Consensus Forecast panelists expect the unemployment rate to average 7.8% in 2019, which is unchanged from last month's forecast. For 2020, the panel expects the unemployment rate to average 7.6%.

- The bulk of our panelists see the policy rate being hiked before the end of 2019, with Consensus for the rate to end the year at 0.16%. In 2020, the rate is seen ending the year at 0.62%. - Looking ahead, the ECB is expected to proceed very slowly with a gradual normalization of monetary policy. Draghi reiterated that interest rates are expected to remain unchanged until the end of summer 2019 or for as long as needed to ensure sustained convergence of inflation towards target. In addition, the Bank stated it would continue to reinvest profits beyond the date of the first rate hike. The ECB also released revised GDP and inflation forecasts at its December meeting, and now sees the economy growing 1.7% (previous: 1.8%) next year and inflation of 1.6% (previous: 1.7%), as well as released 2021 forecasts for the first time.

39) What are currently the five largest fractions in the EU parliament ?

The European People's Party group (EPP Group) is a centre-right political group, The Progressive Alliance of Socialists and Democrats (S&D) is the political group in the European Parliament of the Party of European Socialists (PES), Renew Europe (Renew) is a liberal, pro-European political group, Identity and Democracy (French: *Identité et démocratie*, ID) is a far-right political group, The Greens/European Free Alliance (Greens/EFA)

40) Is there a crisis of capitalism, is there a crisis of European unification? Provide your personal view.

41) What solutions for the migration problem can be envisaged?

Within the EU there should be more cooperation of member-states instead of trying to solve the challenge every nation by itself. The Union should not restrict labor mobility within the EU due to potential negative repercussions on the economy. Offering more language courses within the EU can stop language barriers from being a factor. For professions where a lot of professionals seek out jobs in other countries (healthcare) a paper by Constant and Zimmermann propose the harmonisation of job profiles and a European Professional Card for health professionals.

To provide more transparency for non EU-citizens on their chance to migrate to the EU a point systems should be implemented based on the language skills/education of those people

42) List three important consequences of BREXIT.

Consequences for UK: (für EU: Frage 19)

- The economy has slowed, and many businesses have moved their headquarters to the EU.
- Uncertainty over Brexit slowed the U.K.'s growth from 2.4% in 2015 to 1.5% in 2018.
- Brexit would eliminate Britain's tariff-free trade status with the other EU members.
- Tariffs would raise the cost of exports. That would hurt U.K. exporters as their goods become more expensive in Europe. Some of that pain would be offset by a weaker pound.

-Tariffs would also increase the prices of imports into the U.K. More than one-third of its imports comes from the EU.

- Higher import prices would create inflation and lower the standard of living for U.K. residents.

-Financial companies may leave London

Economists argue that the real per-capita income will be reduced

Trade and investment barriers will be created

Inflation will rise

43) Which institutional changes would be necessary to handle the environmental crisis? Who could implement them?

Either new global institutions with the goal to avert the climate crisis must be founded (can only be done by multilateral agreements), or current institutions have to include this goal into their vision/strategy. World Bank could be a possible institution

44) What is and what could be the role of Europe in the global political economy?