

VNIVERSITAT DE VALÈNCIA

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**Facultat d'Economia**

**GRADUATE IN:**  
Business Administration  
and  
Graduate in Economics  
(International Group)

**STUDENT'S GUIDE  
OF  
THE ECONOMICS OF SPAIN**

Academic year 2010-11

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Tenured of Applied Economics

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## 1.- DETAILS FOR IDENTIFICATION

<b>Name of the subject</b>	The Economics of Spain
<b>Nature</b>	Compulsory
<b>Degree</b>	- <b>European Graduate in Economics (GEE)</b> - <b>European Graduate in Business Administration (GEDE)</b>
<b>Cycle, course, and semester</b>	First Cycle: second and third year
<b>Department</b>	Applied Economics II
<b>Professor in charge</b>	- <i>Coordinator:</i> Manuel Sanchis i Marco - <i>Office:</i> Faculty of Economics, 4th floor, office 4E12 - <i>Phone nr.:</i> +(34) 96 382 85 70 - <i>Fax nr.:</i> +(34) 96 382 83 54 - <i>E-mail:</i> <a href="mailto:manuel.sanchis@uv.es">manuel.sanchis@uv.es</a> - <i>Web of the professor:</i> <a href="http://www.manuel-sanchis.net/">http://www.manuel-sanchis.net/</a>
<b>Timetable and location of the classroom</b>	<i>Web of the Faculty</i>
<b>Tutorial hours</b>	<i>Web of the Department:</i> <a href="http://www.uv.es/estrecon">http://www.uv.es/estrecon</a>
<b>Exam dates</b>	<i>Web of the Faculty</i>

## 2.- INTRODUCTION TO THE SUBJECT

### BRIEF DESCRIPTION ON THE TEACHING APPROACH

The teaching on the economics of Spain aims at making the student understand the pattern and breakdown of economic growth and business cycle in Spain over the last thirty years. As the period under scrutiny starts from the Spanish entry into the EEC, on the impact that such an historical event has had on the Spanish economic reality and policies will be commented during the lessons.

The neoclassical growth model (Solow-Swan) as well as the main features of the endogenous growth theories (Romer, Lucas, Mankiw, and Plosser) will be used as analytical framework. Keeping in mind the major findings of these models, we shall analyse in the following chapters the determining growth factors underlying in the Spanish economy. At the same time, we shall study the macroeconomic shocks experienced by the Spanish economy during the last 20 years, the corresponding macroeconomic disequilibria, and the resulting economic policies implemented to adjust the Spanish economy and support economic growth in the long run.

**WORK LOAD**

Attendance to theoretical lessons:	21 hours (1 ½ hours, 14 weeks)
Attendance to practical lessons:	21 hours (1 ½ hours, 14 weeks)
Study to prepare the exam:	98 hours (7 hours, 14 weeks)
Examination:	2 hours (final exam)
Attendance to tutorial hours:	8 hours
<b>Total work load:</b>	<b>150 hours</b>
<b>Total ECTS credits</b>	<b>6</b>

**3.- TEACHING OBJETIVES****GENERAL OBJECTIVES**

The course *The Economics of Spain* aims at putting at the student's reach the analytical background and the statistical tools he may need to understand and get familiar with the economic growth and the development of business cycles, which have taken place over the last twenty years in the Spanish economy. The workhorse of the course will be the neoclassical growth model (Solow-Swan), and the endogenous growth models (Romer, Lucas, Mankiw, Plosser, etc.). From this analytical framework, we will discuss macroeconomic shocks and the related economic disequilibria suffered by the Spanish economy. We shall also study the response given by private economic agents as well as the policies implemented by the authorities to face those shocks. Attention will also be paid on the impact that the entry of Spain into the EEC and the participation of Spain into the euro had on the dynamics of the Spanish economy.

**CONTENTS**

The subject is organised in two parts. The first part, more analytical in nature, focuses on the two mainstream theories of economic growth. On the one hand, the neoclassical growth model (Solow-Swan); and, on the other, the endogenous growth theories (Romer, Lucas, Mankiw, Plosser, etc.). Furthermore, in a succinct way, based on the error components model proposed by Stockman (1988) we shall analyse briefly which shocks have a sectoral or national character. Finally, by means of the model of Bayoumi and Eichengreen (1992) –based on the methodology of Blanchard and Quah– we shall discuss the several types of asymmetric macroeconomic supply and demand shocks and its effects on the Spanish economy.

The second part of the course analyses the effects and influence of these shocks in the generation and nature of business cycles in Spain, those changes in attitudes and behaviour of private economic agents, as well as the implementation of both macro and microeconomic policies on behalf of the Spanish authorities. Economic growth

and business cycles have taken place within the framework of structural change and factor endowment which has been changing over since the accession to the EEC and whose characteristics will be analysed in an in-depth way.

### **PROFESSIONAL ABILITIES TO GAIN**

Throughout the course, the student will pass a multiple choice test containing 40 questions on key economic concepts needed to understand the subject *The Economics of Spain*, which he/she will self evaluated during the lecture time. At the end of the course, the student will review again the same multiple choice tests to double check his/her progress in the accumulation of knowledge on the subject matter. When positive, this will mean that the student has acquired the ability to properly argue and discuss, in economic terms, the meaning of the several macroeconomic shocks suffered by the Spanish economy over the last 20 years. Moreover, this will imply that he has become capable to fully explain –by using the several economic growth theories and concepts– the technological and structural change that the Spanish economy is facing nowadays.

The provision of an analytical framework and statistical tools, on the one hand, and the discussion on the current institutional features and most recent developments of the Spanish economy will help the student to read recent reports concerning the current economic situation in Spain, to elaborate his own thinking and to be able put it in writing. This is the very purpose of attending university courses: to learn how to read and write; and, in our case, how to do it about economics of Spain.

### **COMPETENCES AND SOCIAL ABILITIES**

This course aims at providing the student with the required analytical and applied tools to consider and assess the mathematical, statistical and econometric information contained in several reports and economic documents on the current situation and recent economic developments in Spain. However, one could have look at, read and write economics in many ways. Ideally, the course would aim at making the student perceive the Spanish economic reality beyond what it appears at first sight. Among other reasons, because science – Aristotle's Greek *episteme*– is demonstrative and, therefore, does not show bluntly but shows from a point of support (*apo-deixis*). Therefore, the course tries to develop inside the student not only the ability to elaborate the deliberative element of the scientific thinking in economics, but most importantly the intuitive and abstractive element of economic thinking, as it is this what allows us to read and write economics which is not only concerned and limited to the a particular issue. On the latter, the reference book *La Economía de España: 1980-2010. Una visión europea* fulfils this function.

The course also aims at creating in the students a kind of instinctive reaction of sane scepticism about conventional wisdom on specific economic issues. To make this claim more concrete, we would like to divert the students' attention from the scene to back room, and redirect and focus their thinking on the economics tricks and traps

and take out the works of the underlying economic rationale. To sum up, to make them distinguish between appearance and reality, and make them able to analyse – that is, to split into pieces– good from bad economics.

We need to widen the horizons of economics if we wish economic thought not be reduced to a unilateral, short-sighted and narrow-minded vision of the economic reality. This one-sided vision of economics only perceives with complete and rigorous exactitude a limited part of economic reality. In doing so, this vision disregards substantive parts of the economic reality, misses the point and becomes fully irrelevant. This is the very purpose of this course: the help the students to acute balance the economic arguments while keeping in mind the broader scenario in which economics needs to act according to its golden rules, making good economics out of it. These are the reasons for exposing –both as putting at sight and putting at risk– in this course mi personal vision on the Spanish economy.

At the university, my activity does not mainly consist, I believe, in the transmission of pieces of information, even when they are put forward in a systematic, rigorous way. By contrast, my duties should rather consist in providing the students with the strategic thinking, the analytical and the statistical tools to face the intellectual challenges when analysing the Spanish economy. Rather than spreading the available information on the Spanish economy, my function as a professor should consist in stimulating the students' capacity to filter and discern, with their own criteria –that of the persons with good economic fundamentals– the enormous amount of economic information that floods us every day. To make them distinguish good economics from bad economics is the very purpose of this course.

## 4.- TEACHING METHOD

### TEACHING METHOD

On the one hand, the theoretical lessons in which the teacher will explain in a dialogic way the several chapters of the subject matter. Explanations include not only the contents in itself but also the underlying economic rationale of each topic. Reflecting the economic thinking and inviting the students to share both the thinking and the arguments elaborated by the teacher. In a nutshell, the purpose goes beyond the blunt transmission of information and knowledge and aims at preparing the students to think on what is being explained in the classroom. On the other hand, practical lessons, will help to go into the details of the fundamental concepts put forward in the theoretical lessons.

## 5.- LIST OF CHAPTERS

### CHAPTER 0 – An economist's job and phallacies in economics (2-4 February)

- 0.1 The humbleness of the economist
- 0.2 Some phallacies in economics

References: Sanchis i Marco, M. (2011): La Economía de España: 1980-2010. Una Visión Europea. Publicacions de la Universitat de València, Valencia.

### CHAPTER 1 – Sectors of the Spanish economy (9-11 February)

- 1.1 The efficiency in Spanish agricultures
- 1.2 Attributes and specialisation of Spanish industry
- 1.3 The housing market and the speculative bubble in Spain
- 1.4 Definition and developments in the services sector

References: Sanchis i Marco, M. (2011): La Economía de España: 1980-2010. Una Visión Europea. Publicacions de la Universitat de València, Valencia.

### CHAPTER 2 – Economic growth: analytical models (16-18, 23-25 February)

- 2.1 Definition and an accounting vision of GDP
- 2.2 A synthesis of the neoclassical economic growth model: Solow-Swan
- 2.3 A mechanical vision of economic growth
- 2.4 Intellectual property and endogenous growth: Romer-Lucas-Mankiw-Plosser
- 2.5 Analytical and empirical regularities of endogenous growth models

References: Sanchis i Marco, M. (2011): La Economía de España: 1980-2010. Una Visión Europea. Publicacions de la Universitat de València, Valencia.

### CHAPTER 3 – Economic growth: determining factors (2-4 March)

- 3.1 Human capital and endogenous growth
- 3.2 The Information and Communication Technologies (ICTs)
- 3.3 R+D policies in the European Union
- 3.4 An historic case: Emperor Trajano and the *Hanseatic League*

References: Sanchis i Marco, M. (2011): La Economía de España: 1980-2010. Una Visión Europea. Publicacions de la Universitat de València, Valencia.

### CHAPTER 4 – Growth and business cycle in Spain (9-11 March)

- 4.1 Economic growth in Spain: 1979-85
- 4.2 Expansion and crisis: 1986-1995
- 4.3 Spain facing the global slowdown: 1996-2007
- 4.4 Recession and deflation: 2008-2010
- 4.5 Change in the pattern of growth: competitive adjustment and capitalisation

References: Sanchis i Marco, M. (2011): La Economía de España: 1980-2010. Una Visión Europea. Publicacions de la Universitat de València, Valencia.

### CHAPTER 5 – Shocks, disequilibria and economic cycle (23-25 March)

- 5.1 Macroeconomic supply and demand shocks and economic cycle
  - 5.1.1 Nominal Business Cycle (NBC) and Real Business cycle (RBC)
  - 5.1.2 Typology of macroeconomic shocks

- 5.2 The concept of Nairu
- 5.3 Effects on the labour market in Spain

References: Sanchis i Marco, M. (2011): La Economía de España: 1980-2010. Una Visión Europea. Publicacions de la Universitat de València, Valencia.

#### **CHAPTER 6 – Macroeconomic policies: external adjustment (30 March, 1 April)**

- 6.1 Adjustment policies in the foreign sector
  - 6.1.1 Expenditure absorption policies: monetary and fiscal policies
  - 6.1.2 Expenditure diversion policies: commercial and exchange rate policies
  - 6.1.3 Nominal and real exchange rates
- 6.2 The magic formulae of external competitiveness: the revealed comparative advantages
- 6.3 Levels of economic integration in Europe
- 6.4 Conceptual and accounting framework of the balance of payments' transactions
- 6.5 Structure, classification and the economic meaning of the balances of the BoP

References: Sanchis i Marco, M. (2011): La Economía de España: 1980-2010. Una Visión Europea. Publicacions de la Universitat de València, Valencia.

#### **CHAPTER 7 – Stabilisation policies: monetary policy within the EU context (6-8, 13-15 April)**

- 7.1 Monetary control and money multipliers: 1977-1989
- 7.2 The ERM paradox: 1989-1992
- 7.3 The impossible trilogy: limits of the Spanish monetary policy within the ERM
- 7.4 The two pillar strategy of the European Central Bank
  - 7.4.1 General principles and changes in the strategy of monetary policy
  - 7.4.2 The two pillars of the strategy of ECB monetary policy

References: Sanchis i Marco, M. (2011): La Economía de España: 1980-2010. Una Visión Europea. Publicacions de la Universitat de València, Valencia.

#### **CHAPTER 8 – Stabilisation policies: fiscal policy within the EU context (20-22 April, 4-6 May)**

- 8.1 The role of the public sector in economics
- 8.2 Does fiscal discipline matter for growth?
- 8.3 Definitions of public deficit and fiscal effort
- 8.4 The Excessive Deficit Procedure (EDP)
  - 8.4.1 Optimum currency areas and fiscal decentralization
  - 8.4.2 Sustainability and the economic rationale of fiscal rules
  - 8.4.3 Legal basis and accounting definitions
- 8.5 The new Stability and Growth Pact (SGP)
  - 8.5.1 The original SGP
  - 8.5.2 The dilemma "rules versus discretion" in the current SGP
- 8.6 Financial sustainability and adequacy of pensions: Toledo's Pact

References: Sanchis i Marco, M. (2011): La Economía de España: 1980-2010. Una



Visión Europea. Publicacions de la Universitat de València, Valencia.

### CHAPTER 9 – Labour market and social protection (18-20 May)

- 9.1 Types of unemployment and its causes: shocks and *hysteresis*
  - 9.1.1 The population three in Spain
  - 9.1.2 Basic indicators of the Spanish labour market
- 9.2 Labour market reforms
- 9.3 Labour market and job creation
- 9.4 What does job quality mean?
- 9.5 Flexibility, adaptability and *flexicurity* of the labour market
- 9.6 A change in the economic model without labour reform? A labour contract that improves employability
- 9.7 Fiscal burden on employment: the tax wedge
- 9.8 Social protection systems and the fight against poverty

References: Sanchis i Marco, M. (2011): La Economía de España: 1980-2010. Una Visión Europea. Publicacions de la Universitat de València, Valencia.

### CHAPTER 10 – Financial markets (11-13 May)

- 10.1 The Spanish financial system in the UE
- 10.2 Free capital movements and “the golden share”
- 10.3 The single EU insurance market
- 10.4 The global financial crisis, the European answer
- 10.5 The global financial crisis, the Spanish answer

References: Sanchis i Marco, M. (2011): La Economía de España: 1980-2010. Una Visión Europea. Publicacions de la Universitat de València, Valencia.

## 6.- CRONOLOGY OF THE ACADEMIC YEAR 2010-11

### February

02 – 04 February	Topic 0	Practice Topic 0
09 – 11 February	Topic 1	Practice Topic 1
16 – 18 February	Topic 2	Practice Topic 2
23 – 25 February	Topic 2	Practice Topic 2

### March

02 – 04 March	Topic 3	Practice Topic 3
09 – 11 March	Topic 4	Practice Topic 4
15 – 19 March	Bank holiday <i>Fallas</i>	
23 – 25 March	Topic 5	Practice Topic 5

### April

30 March – 01 April	Topic 6	Practice Topic 6
06 – 08 April	Topic 7	Practice Topic 7
13 – 15 April	Topic 7	Practice Topic 7

20 – 22 April	Topic 8	Practice Topic 8
27 – 29 April	Bank holiday	Easter
<u>May</u>		
04 – 06 May	Topic 8	Practice Topic 8
11 – 13 May	Topic 10	Practice Topic 10
18 – 20 May	Topic 9	Practice Topic 9

## 7.- ASSESSMENT OF THE LEARNING PROCESS

The final exam constitutes the basis for a global assessment: (i) theoretical part: Choose 2 out of 3 theoretical questions closely related with explanations in the theoretical lessons and the required readings (EU Commission Country Study); (ii) practical part: Choose 2 out of 3 practical questions closely related with the exercises of practical lessons. Ideally, answers should inform about students' ability to elaborate their economic thinking in an analytical and rigorous way while express their analysis in a mathematical and graphical way.

The final mark will result from the exam mark and the students' positive attitude and active participation during the lessons discussions.

## 8.- REFERENCES AND DOCUMENTAL RESSOURCES

### REFERENCES

When preparing the subject *The Economics of Spain*, students could find support in:

1. References: Sanchis i Marco, M. (2011): La Economía de España: 1980-2010. Una Visión Europea. Publicacions de la Universitat de València, Valencia.
2. Sanchis i Marco, M. (2007): Falacias, Dilemas y Paradojas. Píldoras para el buen dormir del economista. Publicacions de la Universitat de València, Colección *Laboratori de Materials*, Valencia, 143 pp.
3. García de la Cruz J.M.; Ruesga Benito, Santos M. (2007): Economía Española. Estructura y regulación. Thomson, Madrid, 441 pp.

Beyond the above references, students can reinforce their preparatory work of the subject by consulting the following complementary references:

1. Abel, A.B.; Bernanke, B.S. (2008<sup>6</sup>): Macroeconomics. Pearson-Addison-Wesley, Boston, San Francisco, New York, 641 pp. Also, Abel, Andrew, B.; Bernanke, Ben S. (2003<sup>4</sup>): Macroeconomía. Pearson-Addison-Wesley, Madrid, 757 pp.
2. García Delgado, J. L.; Myro R. (dir.) (2007<sup>8</sup>): Lecciones de Economía Española. Editorial Thomson-Civitas, Madrid, 440 pp.

3. Sanchis i Marco, M. (2006): "De las monedas nacionales al sistema monetario europeo: la aportación de los servicios de la Comisión". Información Comercial Española, 831:251-267. Also Ministerio de Industria, Turismo y Comercio (2006): Las políticas Comunitarias. Una visión interna. Revista de economía ICE, Ministerio de Industria, Turismo y Comercio, Madrid, pp. 609-648.

The virtual classroom may also have documents of interest for the students, as well as the Web site of the professor M. Sanchis ([www.manuel-sanchis.net](http://www.manuel-sanchis.net)). While these documents, reports and legislation of the EU institutions and the ECB, are not required for the exam, they are most helpful for students to understand some topics.

Students having difficulties in preparing the final exam with books and documents in Spanish they should prepare the topics by studying the following:

1. Langa, E.; Sanchis, M. (1992): 'Public Finance and Fiscal Reform'. Chapter 3 of 'Spain'. Country Studies Directorate General for Economic and Financial Affairs, European Commission, Brussels, 7: 3-65.
2. Salaverría, J.; Sanchis, M. (1992): 'Competitiveness and External Performance in the Catching-up Process'. Chapter 2 of 'Spain'. Country Studies Directorate General for Economic and Financial Affairs, European Commission, Brussels, 7: 40-52.
3. Sanchis, M. (1992): 'The Conduct of Monetary Policy in Spain'. Chapter 2 of 'Spain'. Country Studies Directorate General for Economic and Financial Affairs, European Commission, Brussels, 7: 77-83.
4. Sanchis, M.; Bekx, P. (1994): "Money Demand and Monetary Control in Spain". Brookings Discussion Papers in International Economics, The Brookings Institution, Washington, D.C., 105: 21.
5. Fischer, G.; Sanchis, M. (2000): "Employment promotion and transfer payments", in Policies Towards Full Employment. OECD, Paris, pp. 119-132.
6. Sanchis, M. (2000): "Taxes, benefits and employment". Chapter 5 of Employment in Europe 2000, Directorate General for Employment and Social Affairs, European Commission, Brussels, pp. 75-84.
7. Sanchis, M. (2001): "Employment Performance, Economic Growth and Labour Market Adaptability". Labour Market Flexibility Proceedings of a Joint United States and European Union Seminar, U.S. Department of Labour, September, pp.28-68.
8. European Commission (2005): "Country Study: Spain in EMU: a virtuous long-lasting cycle?". European Economy Occasional Papers, Directorate General for Economic and Financial Affairs, European Commission, Brussels, 84 pp. Required readings for the exam are: (i) Executive Summary, pp. v-ix; (ii) Main text: pp. 1-8 and pp. 15-18; (iii) Main text: Part II, pp. 43-78.