

Handout #2: The Eurozone crisis

Eurozone crisis: a crisis that has been ongoing since 2010 in the Eurozone countries of the European Union, and is often analyzed alongside the financial crisis that began in 2008 in the United States. There are a variety of reasons behind the crisis, including property bubbles, private and public debt. These problems were exacerbated by global economic conditions, trade imbalances and underlying problems in the Eurozone.

Sovereign debt: The amount of public debt owed by a country, incurred by the government.

Sovereign debt crisis: A country's government may fail to repay its debts for a variety of reasons. A crisis can ensue if investors respond by increasing interest rates dramatically, making it more expensive for the country's government to borrow money to cover its obligations.

Contagion: In finance, contagion refers to the spread of financial shocks across institutions or countries. A financial crisis that begins in one country can quickly affect a variety of other countries due to global financial integration, and this is a characteristic of global financial crises.

Bailout: A bailout is a term for any rescue from financial distress. It typically involves large loans with a set of conditions attached.

Austerity measures: These refer to policies whose main goal is to cut public spending. They are typically implemented in order to reduce a budget deficit, and include cuts in funding to public services and benefits. Loans made to countries facing economic problems often require austerity measures as a condition of the loan.

International Monetary Fund (IMF) A global institution that works to promote monetary and exchange rate stability. It has played a leading role providing countries with additional funds during the Eurozone crisis.

Fiscal union: An idea put forward in light of the Eurozone crisis which suggests that the common currency system will only work if the countries integrate *further* by adopting common fiscal policies. These could include giving the EU taxation powers, oversight of government budgets, and better enforcement of penalties for countries that do not comply with EU or Eurozone rules.

Questions:

1. What do you think of austerity measures? Are they helpful, or is the social cost too high?
2. What do you think these European Union countries should do? Integrate further, keep the system as it is, or return to their old currency systems?
3. What do you think of Canada having a joint currency with the United States?