UNIT TWO: THE NECESSITY FOR A COMMON MONETARY SYSTEM AND THE EURO

1.Think about three words linked to the Euro and write them on apiece of paper.. Discuss your answers with your partner. Explain your choices. Then, swap roles.

How many countries are currently part of the European Union?

What is the latest country to join the EU?

How many Member States have adopted the Euro? How many have not?

2. (**Working in pairs)** Look at the questions and try to answer them, using to your knowledge/assumptions.

READING

The first steps of the E.E.C. were to foster (encourage) economic cooperation, with the objective that countries that traded with one other should become economically independent, and therefore, more likely to avoid conflicts.
Since its inception in 1957, twenty-two more countries have joined the six original founders of the European Union.
With the collapse of the Berlin Wall in 1989 and the end of the division between Western and Eastern Europe, Europeans became closer neighbours. In 1993 the single market was completed with perfect freedom of movement of goods, services, people and capital.

03-25-1957-
- Founding Members create the EEC.

01-01-1973
- First enlargement: Denmark, Ireland, United Kingdom enter the EEC

01-01-1981
- Greece joins the EEC.

01-01-1986
- Spain and Portugal became members.

01-01-1995
- The fourth enlargement: Austria, Finland and Sweden.

05-01-2004
- Czech Republic, Estonia, Cyprus, Latvia, Lithuania; Hungary, Malta, Poland, Slovakia and Slovenia became part of the EU. This was the largest single enlargement in terms of people and number of countries.

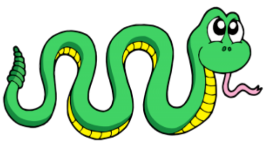
01-01-2007
- Romania and Bulgaria are incorporated in the EU.

07-01-2013
- Croatia enters the EU.

06-23-2016
- British people vote for leaving the EU. The leaving procedure is still ongoing.

As the number of Member States grew, the E.E.C. became larger and more integrated. For this reason, the member countries decided to enforce the rule of a free market, based on the concept of the free movement of, goods, services, capital and people within the borders of the Community. At some point it became clear that it would be easier to reap (collect) the benefits of the internal market without the relatively high business costs generated by the existence of several currencies.

European Countries agreed that it was necessary to reduce the fluctuations in the **exchange rates** among the various European currencies. To reach this goal, they set up the E.C.U. (European Currency Unit), a virtual currency. Each Country had to fix it's own currency rate exchange in terms of the E.C.U., and towards any other European State currency and keep it within a range ±2,25% with the exception of the Italian Lira, which was allowed to fluctuate by ± 6%. The system was based on the idea of stable, but adjustable exchange rates, defined in relation to the newly created E.C.U. They called this the **Snake Currency.**
In 1979 the European Monetary System took over the Snake Currency. It was based on similar rules. Italy left the E.M.S. in September 1992. Since then, the Italian Lira rate exchange started fluctuating freely.



The ±2,25% or ±6% gave the idea for the name of the Snake.

Exchange Rate*: the price of a nation's currency in terms of another currency*
E.g.: Euro/dollar exchange rate: how many dollars are needed to buy one euro.

3. Find the current exchange rate between the Euro and the British Pound sterling, as well as between the Euro and the US Dollar.

E.g.:Currently, the exchange rate Euro/Pound is……………………………………………………………………

and Euro/USD is……

4.Collocations: put the words in the correct order
a. goal/ to,/a /,reach/……………………………………………………………………………
b. stable/a/rate/ensure/exchange/to…………………………………………………..
c. virtual/up/a/set/currency……………………………………………………………….
d.took/the/Snake/System/over/Monetary/Currency/European/the…………………………… ……………………………………

Reflect: what are the effects of exchange rates?

Countries produce goods and export them abroad (to other countries). When these transactions occur, the cost of doing business between two nations depends on the relative strength of their currencies.

For example, back in the Summer of 2008 one Euro was worth 1.6 US Dollars. Consequently, it was quite cheap for Europeans to buy American products. Conversely, European products were more expensive for individuals paying with US Dollars. Therefore, US companies could export a large quantity of goods to Europe, but European companies found it difficult to sell their own products to Americans.

Depending on the needs of a country, the exchange rate can be manipulated to make it easier to sell home products abroad (by depreciating the value of the home currency), or to facilitate the acquisition of foreign goods (by increasing the value the home currency).

EXCHANGE RATE CONSEQUENCES (BEFORE THE EURO)

Date	Mark/lira Exchange rate	effects
September 1992	1Mark=750 Liras	
October 1992	1 Mark=975 Liras	Mark 30% appreciation; Lira 30% depreciation

5.*Working in groups*: what are the most significant advantages of a monetary union (a monetary system based on a single currency, accepted by many different countries)?

Can you think of any disadvantages? *(Hint: think about how the effects of exchange rates described in the passage above apply to a monetary union).Each group reports to the others.*

Monetary Union	Advantages	Disadvantages

The Treaty of Maastricht and the birth of the monetary union

In 1992 the Treaty of Maastricht gave birth to the European Union (E.U.), which took the place of the E.E.C., and established the creation of the Euro within the following ten years. Countries that wanted to join the Euro area had to meet certain convergence **criteria**, set by the Treaty of Maastricht, in order to ensure economic stability.

Convergence Criteria (one criterion, two criteria…)

What is measured	How is measured	Convergence criteria
Price **stability**	Harmonised inflation rate	No more than 1.5 percentage points above the rate of the three best performing Member States
Sound public finance	Government **deficit** as % of the **GDP**	Reference value: no more than 3% of annual GDP
Sustainable government spending	Government **debt** as % of the **GDP**	Reference value: no more than 60% of annual GDP

The GDP represents the total value of all goods and services produced over a specific time period within the boundaries of a country. You can think of it as the size of the economy of a country.
Deficit: the amount of extra money a Government needs when it spends more money than it receives in taxes
Debt: the amount of money that a government borrows from institutional and private investors in the form of government-issued bonds, plus interest payments.

The Maastricht convergence criteria were designed to ensure that a Member State's economy was sufficiently prepared for the adoption of the single currency. They provided a common baseline for the **stability**, **soundness** and **sustainability** of the public finances for Euro area candidates that ensured convergence of economic policy and **resilience** to economic shocks. The exchange rate criterion was established to make sure that a Member State could manage its economy without resorting to (utilizing) currency **depreciation.**

Vocabulary

6. *Choose the correct option*

1. A country's public finances are sound when they are in
   a) good shape.
   b) bad condition.

2. A government's spending plan is sustainable when revenues are
   a) much smaller than expenditures.
   b) approximately equal or greater than expenditures.

3. Resilience is the ability to
   a) quickly recover from a difficult situation.
   b) fight against someone or something.

4. GDP is an acronym which stands for
   a) Gross Domestic Product.
   b) Grand Domestic Price.

5. Currency depreciation means that there is
   a) a fall in the value of the currency.
   b) an increase in the value of the currency.

7. In the chart you read, some of the words were highlighted in bold. Write a synonym and an antonym for each of those words. (You can use the dictionary).

The opposite of sound is …u……………………
A synonym for sound is ……re……….

The opposite of sustainable is …u……………………..
A synonym for sustainable is ……fe……………………

The opposite of stability is……………………………….
A synonym for stability is ……………………………

In the above text there are other words highlighted in bold. Here is a list of synonyms. Choose the most appropriate one for each word.

Solidity, devaluation, reliability, steadiness, responsiveness, feasible

The word "Sound" (verb or adjective) is often used in idioms.

Safe and sound ---> Healthy and unharmed
Sound asleep ---> Completely asleep
Sound as a dollar ---> Totally secure
To sound like a broken record ---> To say the same thing over and over again

The Path to the Euro

1994	Monetary policy is coordinated among the single Central banks
1996	The winning designs for the future banknotes are presented
1998	11 countries meet the convergence criteria. The conversion rate between each currency and the euro is irrevocably fixed.
2002	From January to March, the Euro circulates together with old currencies. Starting in April, the Euro becomes the sole currency.

8. (Speaking) Working in pairs. Browse the internet to find out what countries use the Euro today, and when they joined the monetary union. Try to use some of the verbs in the box while you explain the enlargement of the Eurozone.

SWITCH TO, ENTER, ADOPT, TAKE PART IN, JOIN.

2002	France, Germany, Belgium, The Netherlands, Luxembourg, Italy, Spain, Portugal, Greece adopted the Euro
20…	

9.Here is a blank map of the Europe. Give a name to each Country in the EU. Underline the members of the Eurozone.

Before the creation of the Euro, each national bank used to run its own national monetary policy. The Euro made it necessary to create a European Central Bank.

The European Central Bank

The European Central Bank (ECB), established in 1998 and located in Frankfurt, is the central bank of the Euro area and is an independent institution, representing the core of the Euro system, which runs monetary policy in the Euro area. Currently, 9 Member States out of 28 haven't adopted the Euro: U.K., Denmark, Sweden, Poland, Czech Republic, Hungary, Rumania, Bulgaria.

The Euro system consists of the ECB and the national central banks of the countries in the Euro area. The ECB's primary objective is to maintain price stability, i.e. safeguarding the value of the Euro. As a secondary role, it also supports general economic policies in the EU. Currently, 9 Member States out of 28 haven't adopted the Euro:

The basic tasks of the ECB are to:

1. define and implement monetary policy for the Euro area;
2. conduct foreign exchange operations;
3. hold and manage the official foreign reserves of the Euro area countries;
4. promote the smooth operation of payment systems.

In addition, the ECB **has the exclusive right to issue of Euro banknotes within the EU, and** supervises bank operations in the Euro area. It was assigned this last responsibility in 2014 in order to contribute to the safety and soundness of credit institutions and to the stability of the financial system. The ECB's d**ecision-making** bodies are the ***Governing Council***, the ***Executive Board*** and the ***General Council***.

The Governing Council, which is the main decision-making body, comprises the Executive Board and the governors of the Euro area. The Executive Board is responsible for the implementation of monetary policy and the smooth running of day-to-day operations. It is presided by the President and the Vice-President of the ECB (currently, Mario Draghi,) and four other members.

The General Council *carries out* all the tasks the ECB is required to perform until all EU countries have adopted the Euro. Like the Governing Council, it is also presided by the President and Vice-President of the ECB, and includes the governors of the national central banks.

10. Match each word with its meaning

a. to hold	1.An amount of money that can not be loaned by banks
b. task	2. To put into practice
c. to implement	3. A piece of work assigned or done
d. smooth	4.To keep, to safeguard
e. reserves	5. Having no obstacles or difficulties

11. The verb "to carry" plus prepositions. With the help of a dictionary, find the meaning of these verbs: write a sentence for each meaning. Then compare your sentences with the ones of your next classmate.

Carry out	
Carry on	
Carry over	
Carry away	

4. Listening and Comprehension

www.youtube.com/watch?v=TAlcFwGIQBg

12. *We are going to watch a short video. Listen carefully, and see if you can hear any of the terms listed below(working alone)*

a. European Central Bank
b. National Central Banks
c. Governing Council of the European Central Bank
d. European Central Bank Executive Board

13. Now you'll watch the video again. While you're listening, underline the adverbs the speaker uses, choosing among the ones in the box. Then compare your list with your partner's and discuss the meaning of each adverb. Do you know them all?

Rapidly, formally, occasionally, currently, weakly, hard, temporarily only, fully, collegially, hopefully

14. Fill in the table by writing the correct noun/ adjective

Adverb	Adjective	Noun
Rapidly		
Formally		
Occasionally		
Weakly		
Collegially		

15. *We are going to watch the video again. After the video is over, answer the questions below. Don't worry if you make mistakes! We are going to watch the video one last time to check (working in pairs)*

a. What are the advantages of the Euro , according to Sarah?

____

b. Who looks after the Euro?

____

c.What is the main tool used by the Euro System to keep inflation below 2%?

____

d.Who makes up the Governing Council of the European Central Bank?

____

e.Name two tasks of the Euro System

____

16. Complete the following sentences

1. The main purpose of the ECB is to maintain the **p**………………… **s**……………………..
2. The ECB decides how many Euros need to be **p**………………………………
3. The most important institution within the ECB is the ……………………………
4. The monetary policy includes…………………………………………………………………………

17. Now you're going to watch another video, summing up what you've learned so far. While you're listening, try to complete the text below. (You're going to watch the video twice)

After two World Wars in less than a century, many people sought the means to prevent such devastation from happening again.

One idea put __________ by a French civil servant, Jean Monnet, and taken______ by France's foreign minister at the time, Robert Schumann, was to pool the industries that were seen the engines of war: coal and __________.

In 1951 six countries, France, Germany, Belgium, Italy, Luxembourg, and the_________, signed the Treaty of Paris, creating the European Coal and Steel Community, governed by the first ______________body, the High Authority. Europe's leaders wanted to go further, so on the _______________1957 they signed the Treaty of Rome, creating the EEC, the European Economic Community, and the EURATOM the European Atomic Energy Community.

In_______, the prime Minister of Luxembourg, Pierre Werner, proposed a __________ ___________. The Werner report, published in 1970, called for a step by step program for a monetary union within ten years, but a year later the US __________ the dollar; then there was an oil crisis, and the Werner plan was shelved.

So, instead of a monetary union some countries in Europe introduced what was called the _________ __________, which set limits on exchange rate fluctuations, both against a number of European currencies and against the dollar. Between its creation in________, and its demise seven years later, the snake brought a lot of exchange rate _________ and a veritable revolving door of countries joining, _________, and then re-joining again.

In ______the push of economic and monetary union was revived. The European Monetary System was born, and the European Currency Unit, or ECU, was created. The ECU, however, was only a virtual currency, a mere unit of account. Within the European Monetary System, the member states agreed to keep their currency within the fluctuation band of 2.25% around a central reference rate. This was the start of the exchange rate mechanism.

The governments of the member states didn't always find it easy. There were 37 currency __________ between 1979 and 1987. In _______the member states signed the Single European Act, which marked the first substantial changes to the Treaty of Rome. The objective of the Single Act was to create a true internal __________ by 1993, based on the free circulation of __________, __________, __________, and __________, with no non-tariff barriers.

In _______the then president of the European Commission, Jacques Delors, was appointed to chair a committee whose findings were to become the basis of the Maastricht Treaty. The Delors report envisaged a ______________progression toward economic and monetary union.

Stage 1 focused on increasing the cooperation among central banks, and was adopted as of the 1st of July_______, when the movement of capital in the European Community was liberalized completely. The treaty on European Union was then signed in Maastricht on the 17th of February 1993. It laid _______the framework and further steps for achieving the economic and monetary union and making it work. The treaty established 1994 as the beginning of stage 2. This stage would bring __________economic convergence as well as the institutions and procedures needed to achieve it. The treaty set ________the convergence criteria, which member states had to fulfil in order to be considered ready to adopt the single currency.

Stage 2 saw the creation of the European Monetary Institute, which began its work in Frankfurt, on the ____________________1994. The EMI carried out all the preparatory work necessary for the ECB to assume its responsibility for monetary policy. In May 1998 EU leaders and finance ministers met in Brussels to decide which states had reached a sufficient degree of convergence, and could therefore participate in the monetary union. They also ______________the first president of the ECB, Willem Duisenberg, and the other members of the first executive board.

The ECB was established on the 1st of _______1998, replacing the EMI and taking __________ its Frankfurt offices. Together with all the national central banks of the member states of the European Union, the ECB came to form the European System of__________. On the night of the 31st of December 1998 the Euro was born, and the conversion rates of the currencies of participating in it became irrevocably fixed.

Stage 3 began on the 1st of ________1999 when the single currency was launched and authority over monetary policy was transferred from national central banks to the Governing _________of the European Central Bank. Three years later, on the 1st of January______, the new banknotes and __________ were introduced amid widespread celebrations. People queued at cash dispensers to be among the first to have the new currency in their pockets. For three years the euro had been the official currency for banks, businesses, and the financial market, but now it ______________to everyone.

18.Phrasal verbs

The text above features a series of phrasal verbs (a verb plus a preposition). Match them to their definition below.

1.	Take up	a.	To establish
2.	Put forward	b.	To replace (someone's role), to inherit
3.	Bring about	c.	To request
4.	Call for	d.	To complete (a task)
5.	Lay out	e.	To suggest
6.	Set out	f.	To assume (a role/responsibility)
7.	Carry out	g.	To plan
8.	Take over	h.	To make happen, to cause

Do you know any other phrasal verbs? How many can you write by combining the verbs and prepositions below?

To get, to set, to take, to go, to look, to bring	Up, down, in, out, over, forward, about, on, off.

19.Final Task

- **Underline all new words, verbs, idioms, prepositions, you've learnt so far.**
- **Sum up the content of these two units. Make sure to include the following points:**

• **1.Why and when was the ECSC created;**
• **2. What were the names of founding Countries;**
• **3. What was its aim;**
• **4.What Community was set up in 1957; what was its purpose;**
• **The path towards a single currency**
• **The institutions which are in charge of the Euro**

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- **Give your summary to your partner and ask for his or her opinion of your work.**

- **Swap roles.** **Now you are ready to write an article for the school periodical.**

Do your best, the most interesting will be published!

ANSWER KEYS

Ex.1
Possible answers: union, saving money, easy prices comparison, stability, coin, banknote, European Central Bank, Euro tower, economic crisis, inflation, deflation….

Ex.2
28 Countries. Croatia is the latest one.19 countries have adopted the Euro so far. 9 haven't.

Ex.4.
a) To reach a goal.
b) To ensure a stable exchange rate
c) To set up a virtual currency
d) The European Monetary System took over the Snake Currency.

Ex.5
(possible answers) Advantages: to easily compare prices; prices stability; freer competition among many different companies; higher quality products …..Disadvantages: difficulties in facing the economic crisis; long decision process, disagreement among the Euro zone State Members; …..

Ex.6
1-a/2-b/3-a/4-a/5-a.

Ex 7
unsound/reliable/unsustainable/feasible/instability/economic consistency

Ex.9 (Members of the Euro zone)
Italy,Germany/France/Belgium/TheNetherlands/Luxembourg/Austria/Spain/Portugal/Greece/Finland/Ireland/Estonia/Latvia/Lithuania/Cyprus/Malta/Slovakia/Slovenia

Ex.10
a-3/b-3/c-2/d-5/e-1.

Ex.11

Carry out	To perform
Carry on	To continue doing sth.
Carry over	To postpone
Carry away	To sweep off

Ex.14

Adverb	Adjective	Noun
Rapidly	rapid	rapidity
Formally	formal	formality
Occasionally	occasional	occasion
Weakly	weak	weakness
Collegially	collegial	collegiality

Ex.15

a. To buy things without having to change money. To easily compare prices across different countries.

b. The E.C.B. and the Central Banks of the Countries that use the Euro.

c. The decisions on key interest rates.

d. All the Governors of the Central Banks of the Euro Area and the Members of the E.C.B. Executive Board

e. insuring the smooth operations of payments system, making it faster, safer and easier to make cashless Euro payments around Europe; holding and managing official reserves in foreign currencies, collecting and compiling a wider range of statistics

Ex.16

1price stability,

2 printed,

3 Governing Council,

4 to maintain prices stability.