Financial Education

Subject: History, Social Studies & Political Education

1. Economic crises

2. Countertrade

3. The significance of the € for the economy and the population

4. The history of the Economic and Monetary Union

5. Retirement provision/Pension/Insurance

Financial Education

Subject: History/Social Studies/Political Education – Economic crises

“Financial Education”

TEACHING MATERIALS FOR:

HISTORY (AHS – Higher general education school)

GENERAL INFORMATION

SUBJECT & GRADE	**History/Social Studies/Political Education:** Senior classes
TEACHING UNITS	3 units of 50 minutes each
TOPIC	**Economic crises**
CONNECTIONS TO THE CURRICULUM	- Working world, development of the division of labor and forms of economic activity (barter economy, countertrade economy […] development of the market […])
TARGET COMPETENCES[1]	**- The students shall…** Know the chronology of economic crises since 1929 and be able to describe them (L2) Be able to describe the development of the financial and economic crisis of 2008 (L2) and to critically analyze it (L3) Be able to reflect on the consequences of the financial and economic crisis on the global population (L3)
INTERDISCIPLINARY COMPETENCES	Analytical competence
CONNECTIONS TO OTHER SUBJECTS	**Geography & Economics:** Financial market & financial and housing crisis; Financial market and investment
<u>PREVIOUS</u> CONTENTS IN THE SAME GRADE	**German:** Textual skills (applying techniques of quick and target-oriented filtering of information); **Geography & Economics:** Investment forms/stock exchange

[1] Indication of the level of competence (L) from 1 to 3, where 1=recalling, 2=understanding, 3=problem solving

Financial Education

Subject: History/Social Studies/Political Education - Countertrade

"Financial Education"

TEACHING MATERIALS FOR:

HISTORY (AHS – Higher general education school)

GENERAL INFORMATION

SUBJECT & GRADE	**History/Social Studies/Political Education:** 6th grade (2nd grade/junior classes)
TEACHING UNITS	1 unit of 50 minutes
TOPIC	**Countertrade**
CONNECTIONS TO THE CURRICULUM	- Working world, development of the division of labor and forms of economic activity (barter economy, countertrade economy […] development of the market […])
TARGET COMPETENCES[1]	**- The students shall…** Be able to explain the forms of countertrade (L2) Be able to describe previous forms of money and explain money as medium of exchange (L3) Be able to explain the difference between cash and bank money (L2) Be able to explain problems related to the various forms of countertrade (L2)
INTERDISCIPLINARY COMPETENCES	Analytical competence (film)
CONNECTIONS TO OTHER SUBJECTS	**Geography & Economics:** Managing pocket money properly; Financial market & financial and housing crisis
PREVIOUS CONTENTS IN THE SAME GRADE	**none**

[1] Indication of the level of competence (L) from 1 to 3, where 1=recalling, 2=understanding, 3=problem solving

Markets and money

Economic education for the age group of 8- to 12-year-olds

- Needs, wishes and advertising
- The history of money and its function
- Markets: Countertrade market, Global chocolate market and the chocolate LTD
- Impulse texts for students
- Teaching examples referring to economic topics
- Links, materials and references

Dear readers,

Elementary school kids already take part in a huge range of economic activities. They buy their school lunch, try to convince their parents to buy the new computer game or the trendy brand, save their pocket money or spend it. Studies have shown that the buying decisions of parents are tremendously influenced by their children. Therefore, it is not surprising that more and more advertising campaigns are directly aimed at children. Snack chocolate bars, convenience lunch – bright children's eyes shall help increase sales.

Children learn at an early stage what really counts in consumer society: money and a job to earn money. Seemingly all wishes can come true with enough money.

In this issue, three main topics referring to the field of economics are prepared for primary schools (resp. for the 5th and 6th grades):

- *Needs and wishes as basis for economic activity*
- *Development and function of money*
- *Markets (flea markets, barter markets, global and financial markets)*

Dealing with the topic of chocolate shall illustrate that economy and economic activities are globally networked. The cocoa bean is the focus within all of the three main topics – in advertising, as a medium of exchange and on the global market. For the first time, this issue also includes age-based impulse texts besides the usual teaching examples. They can be used for preparing the knowledge transfer or as information sheets for the children.

We wish you success with the implementation of the topic and look forward to your feedback on the issue.

Elisabeth Turek
for the team of Zentrum polis
Elisabeth.turek@politik-lernen.at

1. ECONOMIC AND CONSUMER EDUCATION

The contents of economic and consumer education comprise two main thematic blocks:

- General politico-economic topics (financial and monetary policy, economic systems, globalization etc.)
- Issues that are of individual importance for the consumers. These refer to managing money and saving, but also to consumption, rules for food labelling, advertising etc.

Tip: Link and references

Economic and consumer education (website of the bm:ukk): www.bmukk.gv.at/wirtschaftserziehung

This issue can be used as supporting material for the brochure "Ich kauf mir was. Wirtschaftserziehung und VerbraucherInnenbildung". The brochure deals with topics referring to the area of consumer education, e.g. individual buying behavior, financial literacy, advertising and ecology.

Designed for the secondary education level 1: polis aktuell 2010/3: "Konsum und Lebensstil" [Consumption and lifestyle]

Both brochures are available for free download (www.politik-lernen.at > shop) and in paper-based format (order under service@politik-lernen.at).

1.1 ECONOMICS WITHIN CURRICULA AND THE GENERAL EDUCATIONAL OBJECTIVE FOR PRIMARY SCHOOLS

In primary schools, economic topics are dealt with in the subject called "Sachunterricht" (General Science; experience and learning area of economics) and the school principle "Wirtschaftserziehung und VerbraucherInnenbildung" (Economic and consumer education). This school principle also applies to all other educational institutions and grades).

According to primary school curricula, the education and learning area of economics comprises e.g. insights into basic needs, connections between working, earning money and spending money as well as production processes and the production of goods.

2. NEEDS AND WISHES AS BASIS OF THE ECONOMY

Children have a definition of their own of desirable consumer products. It is especially challenging within economic education to strengthen the ability of children to differentiate between needs and wishes. What has priority? Do I really need this or that? Why? It is important to ask for motives: What kind of person do I want to be, which group or groups do I want to belong to, which means are available (money, knowledge, social relationships etc.)? What do I want to be able to afford, how am I influenced by advertising and what are my weak spots?

Needs and wishes serve as introduction to the subject area of economics because they trigger economic activity and consumption. In a nutshell, economics refers to the allocation of limited resources. In our consumerist society, a need becomes a want on the markets through wishes and spending capacity. The term needs refers to things that cannot be done without, whereas wishes express the desire to have something. Various needs can lie behind a wish, e.g. the wish for brand-name clothing can reflect the need for appreciation and belonging. This need shall then be fulfilled in a roundabout way.

The feeling to lack something that the individual experiences in the form of physiological or psychological tension is one of the common definitions of needs. The range of needs is not the same for all people. The education level, the age and group membership, but also social and cultural influences play an essential role here. Needs are usually differentiated in two categories depending on how urgent people have to get rid of certain feelings of lack:

- Vital needs (in order to survive)
- Basic needs as requirement for a decent, happy life: physical needs, safety and social relationships.

A well-known theory on needs is **Abraham Maslow's Hierarchy of Needs** (US-American psychologist, 1908-1970). The concept is however controversial. Maslow arranged the needs according to their importance:

1. Physiological needs (food, sleep, shelter etc.)
2. Safety needs (protection of life, possessions, family etc.)
3. Social needs
4. Self-esteem needs, desire for respect, power and prestige
5. Self-actualization needs
6. Aesthetic needs
7. Need for knowledge and understanding

Maslow suggested that the first three needs of the hierarchy have to be met before a person is ready to work on the higher stages of the pyramid. What he wanted to say by this is that an individual is not interested in a Porsche when he or she is starving. One point of criticism of this concept is that e.g. the needs of the second, third and fourth categories are culturally different. Another point of criticism is that many people from poor backgrounds stood up for a vision with all their strength and campaigned for a society – even though they were hungry!

Tip: Materials

Polis aktuell 2009/7: "Kinderrechte sind Menschenrechte" [Children's rights are human rights] > www.polis-aktuell.at > shop > filter „Kinderrechte"

Tip: Method: Of „wants“ and “needs” based on the exercise “Aufbruch in ein neues Land” [Departing for a new country]

Age	3rd and 4th grade
Objectives	Be able to name and differentiate between various wants and needs. Understanding the connection between human needs and human rights.
Time	1 teaching unit
Procedure	1. The children form small groups (four to five children). Each child receives eight small sheets of paper (A6) and draws or writes down things that he or she would like to have…that he or she especially likes or…cannot do without (one aspect per sheet). In addition, each group draws a ship together (on an A3 sheet). 2. The children imagine that they take this ship to a new continent. They will live there and establish a new country. They can take all the things with them that they drew or wrote on their sheets. The children check whether there are things mentioned twice and sort these out. Then, they place the remaining sheets around the ship. 3. “The journey starts in nice weather. The sun is shining, but suddenly thick black clouds appear and a storm begins. Each group now has to throw **five** cards overboard so that the ship does not sink. What can you agree on?” (The cards are put aside and you collect them) 4. “Finally, the storm is over. That was a near miss. Oh dear, the ship begins to totter again and a hurricane is coming your way. You have to throw another **six** cards overboard. Decide what is really important in order to survive and for the future!”(The cards are put aside, you collect them and form a new pile) 5. “The journey continues. But what is happening now? The ship sways to its side. There is a leak! The ship is in danger of sinking! Throw another **seven** cards overboard quickly.” Again, collect the cards and form another pile. 6. “Finally, the new continent is within sight” Do you have everything to survive and to develop?” The children glue the remaining cards to the ship. The children present their pictures to the other groups. Hang the cards that were thrown overboard on a string across the room using clothes pins (one string per pile). In the following, you see questions that you can ask the children afterwards: *How did your group decide what to throw overboard? Which decision was especially difficult? How will you be able to survive in the new country? Will you have everything you need in order to grow up in a decent way? Do all people need the same things and have the same needs? What can people do without, but still want to have? Take a look at the cards on the strings!* The exercise is also useful for introducing the topic of children’s rights (see impulse for students below).
Idea	Adaption of the exercise “Aufbruch in ein neues Land” [Departing for a new country] taken from the Compasito (Handbook for human rights education for children). Ed.: Federal Agency for Civic Education, German Institute for Human Rights, Council of Europe: Bonn, 2009). Online: www.compasito-zmrb.ch/uebungen/

Impulse for students

TOPIC: CHILDREN’S RIGHTS AND WISHES

There are things that children cannot do without and things that are convenient and handy or have certain benefits (e.g. an education that enables a better life). Finally, there are also luxury goods – a fast car or the awesome smartphone that is currently advertised.

- *What do you need? What do you like and what does luxury mean to you? What could you probably do without?*
- *What do all children need regardless of where they live and what should they thus have a right to have?*

The things that all children need are summarized within the children’s rights – for example food, drink, shelter, warm clothes for the winter or medicine. But there are also things that children need in order to have a good

life and to grow up in a decent way. Many of these things are not available in the shops: security, safety, love or friendship or the right to express their views on things that concern them freely and to associate with other children.

The website of UNICEF for Kids (United Nations International Children's Emergency Fund) was especially designed for children. There, you can get more information on children's rights. **Internet address: www.unicef.de/kids**

2.1 ADVERTISING

How does it happen that we want a certain product? Who is interested in us having many wishes resp. consuming as much as possible? Which connection do children see between their individual wishes and needs and advertising?

Advertising is primarily "learnt" through frequent repetition and with emotionally charged messages. In this way, advertising slogans linger in people's minds for a long time.

Advertising strategies basically aim at attracting attention and drawing interest to a specific product. The next step is about creating the wish in the consumers to possess this product and thus actualize the promise made by the advertisement (e.g. being healthy, beautiful, successful etc.). The four Ps are a well-known formula of advertising: **pictures**, making a **promise** and giving the product meaning, **prove** by experts and the appeal for springing into action (**push**).

Tips on methods (4th to 6th grade)

1. Advertising researchers

WHERE are we faced with advertising from mornings to evenings? Draw a sun on one side of the board and a moon on the other side. Draw a wiggly line between the sun (day) and the moon (night). Collect the statements of the children and place them on the line.
WHICH kinds of advertising have the students already detected today (in the morning, on their way to school)? The students form groups of four, think about the question and take notes.
Home assignment: The students are asked to write down all kinds of advertising that they can detect (seeing/listening, brands, advertising slogans etc.). On the next day, the students share their results within small groups: What did we see or hear? How often and where (TV, radio, posters etc.)? Then, umbrella terms for the ads are searched together in class (e.g. sweets, insurances, aid organizations, car brands etc.). The groups compare the categories and products that are placed first and second.

2. Advertising slogans

Several beginnings of advertising slogans are stated and the students are encouraged to complete them, e.g. the Austrian slogans *Die zarteste… So viel Genuss… lang/Praline…aufhören…schmeckt feiner.* Collect further examples of slogans that the children are familiar with.
Debriefing:

- Which slogans do the children like and why?
- Who, i.e. target group, is the advertisement primarily aimed at?
- Which information do I gain by the advertisement?
- Would you buy the product because you like the slogan or wouldn't you?

3. Chocolate ad – self-made

The children come up with good slogans for chocolate.

4. Preferably, I am or would like to be…

Step 1: The children each choose four characteristics and write them down:

- A strong person.
- A sporty person.
- A funny person.
- A helpful person.
- A successful person.
- An intelligent person.
- A reliable person.
- A good-looking person.
- A cool person.
- A nice person.
- A popular person.

- A good speaker.

Step 2 (on the next day): The children bring current ads with them to class (newspapers, empty packages etc.).
Questions for the students: *In which way are the people or figures depicted (young or old, active or passive, sporty etc.)? Do they have the features that you would like to have? Compare: Which features have you selected?*
Afterwards, the children are asked to describe in detail what is advertised and who the ad is primarily aimed at.
What do you like/what not? What information do you get about the product?

3. THE HISTORY OF MONEY AND ITS FUNCTION

Impulse for students

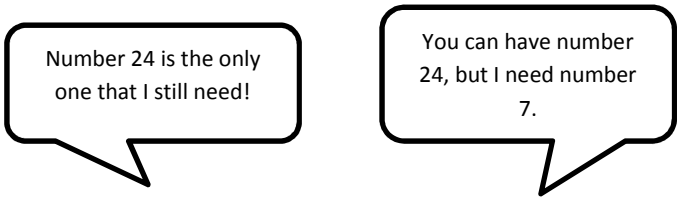
TOPIC: MONEY AND BARTER

There are numerous terms for money in colloquial speech. *Which one do you use?*

Who invented money? We do not really know. Humans have been able to do without money for a long time and made use of barter instead.

Exchange and barter economy

In times when there were no coins and banknotes, people manufactured tools and clothing within their clans. A clan consisted of 20 to 60 people who lived together. They exchanged what they were able to produce, hunt or collect. In the Stone Age, these things were e.g. furs, salt, meat or spearheads that were used for hunting. About 10,000 years ago, people started to live in larger rural communities. They grew crops and vegetables on their fields and kept domestic animals. They discovered that it is significantly more convenient to divide the labor. The smith produced the spearheads that he e.g. exchanged for meat or the fur that the hunter brought home or for cloths that were weaved by the women. So, people exchanged goods for goods and received what they needed for their lives. You also know the process of exchanging – from sticker albums.



Primitive money

The so-called barter trade also had disadvantages. Many things that were exchanged had to be consumed or used up in a short period of time – after all, crops and vegetables are perishable. Furthermore, you first had to find someone who would exchange goods with you. This is why people came up with the idea of using things as means of payment, such as stones (Micronesia) and cowry shells (Asia, Africa, Oceania). In Central America (in the area of today's Mexico), people used cocoa beans as a medium of payment, in Europe it was salt and in China, they used pressed tea in the form of tea bricks. Also dogs' teeth (e.g. in New Guinea) and sperm whales' teeth (Fiji) were in circulation. Later, especially metals, such as bronze, silver, copper and gold were used. Generally, the things that were exchanged were special and valuable. These means of payment are called "primitive money" today. Now it was possible that somebody for example could exchange crops for salt and later for meat.

Take a look at the globe and find out where New Guinea, Fiji, China, Mexico and Micronesia are located.

Cocoa beans as means of payment in the area of today's Mexico

For the Maya – a large indigenous group in Mexico – cocoa beans were very valuable for trading. Later, also the Aztecs used them as their money. Sometimes, the cocoa beans were "counterfeited", i.e. dyed with red color and swelled up in water so that they became more valuable. The drink called *xocolatl* (i.e. bitter water) consisted of water, cocoa beans, chili, vanilla and honey. It did not taste like the cacao we know and was reserved for the upper classes (priests, aristocrats and warriors). *Xocolatl* was seen as a gift from a mighty god. About 150 years ago, the colonial powers France and England brought cacao to Africa and Asia in order to grow it there for Europeans.

Coins – paper money

Researchers found out that people in Mesopotamia (area of today's Iraq) paid with weighed silver about 4,000 years ago. Weighed gold, silver, copper and bronze as means of payment also spread to other parts of the world. Merchants from Turkey came up with the idea of imprinting patterns in the metals. This process was called "minting" and the trouble of weighing was saved ever since then. The first paper money was printed in China (about 1,000 years ago). Only several centuries later, paper money was also used in Europe.

Plastic money, account and interest

Your parents sometimes certainly use a plastic card to pay in the supermarket or the shoe store. Or when they have to pay the TV license fee or the smartphone bill, they can use express transfer machines of banks or their computers. Here, no banknotes or coins are used. The money that is transferred to a company or another person is then deducted from the account that they have with the bank.

An account is a kind of savings book. When a person receives money, it is transferred to the account. He or she can then "withdraw" the money in case it is used for daily expenses, such a food. The banks pay interest if it keeps people's money. The bank lends money to other people that want to borrow money. People who want to borrow money from a bank have to pay high interest.

Currency

The term currency describes the type of money of a country. In Austria, we pay with euros and cents; up to the year 2002, the currency was schilling and groschen.

Which other currencies have you heard of?

If you want to change money to another currency (e.g. euro to Egyptian pound), also these aspects play an important role: How much are the products there? How much do the people earn with their jobs? What is the country's level of indebtedness? All these things affect the value of the currency.

Inflation of money

Can you imagine that in Austria, an ordinary loaf of bread was 5,269 Kronen (this was Austria's currency at that time) in 1923? In 1914, people only had to pay 34 Heller (approximately a third of 1 Krone) for 1 kg of bread, but in 1923, they had to pay 5,268 Kronen! On Friday, the bread was maybe 4,000 Kronen and on Monday it was 5,000. In many cases, people stopped counting their money because it would have taken them too long. They weighed it and carried it around in bags on their backs when they got their wages. Money had almost no value after WW1. The value of the money decreased faster than it could be reprinted. Inflation means that the amount of money in circulation increases, but the number of produced and purchased goods does not increase.

Completely without money!

Not everything can be bought with money! *Which fun things come to your minds that are free?* First, watch the film and then think about the question together. Short film on the website of the "Demokratiewebstatt": *"Schau doch mal! Collecti in ‚Geld und Konsum'"* (1.46 minutes), www.demokratiewebstatt.at/1268.html#c3957

The development of money and the cocoa bean as early means of payment are good introductory topics for chapter 3 (markets resp. the topic of chocolate and its value chain).

Tip: Links (Topic: Money and the history of money)

Polis aktuell 2008/2: Money makes the world go round! But who rules the money? About the history of money and its functionality > www.politik-lernen.at > shop > *polis* aktuell

Thematic dossier of the "Demokratiewebstatt" (Managing money, history of money and more): www.demokratiewebstatt.at > "Kunterbunter Themenmix" > topic "Geld und Konsum"

www.kindernetz.at > "Infonetz" > "Geld": much information on money, a short film (1.27) amongst others as well as an informative website for children on the topic of money (TV station SWR Program for children and families)

"Euro school" on the website of the European Central Bank (euro banknotes, coins etc.) and online competition, interactive illustrations/figures, animated films and more: www.ecb.europa.eu/euro/play/html/index.de.html

Sparefroh TV (Erste Bank and others in cooperation with Zentrum *polis*) On Sparefroh TV, children get answers to questions on the topic of money. Episode 1: What is money? From barter to electronic money > www.politik-lernen.at/site/gratisshop/shop.item/106166.html
The reports on Sparefroh TV are newly available also in English and thus interesting also for higher grades.

Thematic dossier "money" on the primary school portal by schule.at > www.schule.at/thema/detail/geld.html

4. MARKETS: COUNTERTRADE MARKET, GLOBAL CHOCOLATE MARKET AND THE CHOCOLATE LTD.

The economic rationality of supply and demand regulates the market – this is what schoolbooks say. Demand and supply curves are thus the basis of price formation.

Economic activity on markets however comprises much more than that. It is also about social action, where values, norms, institutions and (power) relations play an important role.

Which markets do the students know? They are probably familiar with many of them (e.g. supermarkets, flea markets, farmers' markets etc.). On a farmers' or a flea market, products and prices are comparable and the vendors and buyers are visible. In the supermarket in contrast, the articles for sale can be seen, but not the retailers and the persons who harvested or produced the products. The prices in supermarkets are fixed and cannot be negotiated.

The term market has two meanings:

1. "Market" is a place, where goods are offered and sold in a specific time period.

2. "Market" is a general term for supply and demand and for the prices that are negotiated. Not all markets consist of retailers that have market stalls. The job market or the global market (= goods and services that are traded globally) belong to this kind of markets.

4.1 BARTER AND FLEA MARKETS

Economic activity is very obvious for children on flea and barter markets, many things can be experienced and tried out (e.g. negotiating – with and without money).

Tips on methods

Market day
Arrange a market day with the children and ask them to bring TWO objects from home with them that they would like to exchange for something else. The selection should be discussed with the parents beforehand.

Step 1: Barter market
All children now place ONE object that they brought with them on their desks (shells, stickers, pretty stones, toys etc.). They have 10 minutes to negotiate and exchange their objects.

Step 2: Flea market
Afterwards, a second round takes place (the children put the objects they traded before away). Each student receives toy money amounting to 5 euros in individual "euro banknotes" (taken from a game or self-made). Now, the children offer the SECOND object they brought with them. All children take a look at what the others want to sell and ask for the prices. Once the child that sells the object agrees with the child that wants to buy it, then they close the bargain. When a child bought something, he or she can buy something else from another child with the money they made.
The children write down what they spent and on what they spent it. Discuss the following questions with the children:

- What was the difference between the first and the second round? What was funnier?
- What do you do if you want to exchange things with someone who does not want them?
- Did you negotiate the prices in the round including money?

- What do you think do the terms “supply” and “demand” mean?
- What would happen if there was no money?

Variants:

Silent exchange (the students do not speak!)
The students form a circle and sit down; a child places an object that he or she offers for trade in the middle of the circle. Those who want to respond to the offer put their objects silently next to the object in the middle. Now the child decides whether it wants to accept the exchange offer or not. In this case, he or she takes one of the offered objects and the other child receives his or her object. Then, the barter objects are collected and it is the next child’s turn. If the first child is not happy with the objects that are offered, he or she leaves the objects in the middle. Then, the classmates can either increase their offers or withdraw their offers and the round continues.

Trading with each other
The children form pairs and decide who the seller is and who the buyer is. The students use an object that they brought with them for the trade talks (alternative: an object that you provide for them). The children shall now negotiate within two minutes. The seller states the price that he or she wants for the object. The other child negotiates on a lower price using convincing arguments. The seller on the other hand shall convince the buyer of the value of the object. When the two minutes are over, it is the turn of the next pair using another object.
Subsequent questions:
- What were the children able to observe?
- Which arguments did the sellers and buyers use?
- Did the children make use of tricks in the negotiations (e.g. arousing pity)?
- Were the strategies successful?

4.2 GLOBAL CHOCOLATE MARKET

Economic relations on the global market are easily comprehended by 8- to 12-year-olds using the example of chocolate: How is chocolate made and what is it made of? Who is involved in the trade? Who gets how much of a bar of chocolate and how is the price of chocolate actually formed?

The following sections provide an insight into the “hidden” side (production, global market etc.) of the visible product chocolate. Consumers also influence the global markets by their habits of consumption and their buying decisions.

4.2.1 VALUE CREATION CHAIN AND ACTORS ON THE CHOCOLATE MARKET

Millions of peasants, but also multinational enterprises that process cocoa beans and retail participate in the value creation chain of chocolate.

Not only the price of the cocoa, but also the costs of the labor-intensive cultivation, the amount of taxes and customs charges as well as the terms of trade for the global market are relevant to the income of the peasants.

Who the participants in the chocolate trade are and what their responsibilities in the overall production and value creation chain are, can be illustrated by the following exercise example including various roles. Here, many of the typical topics referring to the production of cocoa come up: child labor, world trade with agrarian raw materials, unhealthy working conditions and the lack of social justice. Also the interest of consumers and brand loyalty by advertising campaigns are parts of the chain.

Tip: Reference

The value creation chain of chocolate: fact sheet by Südwind Germany (June 2012) > www.suedwind-institut.de/2012/2012-24_Fact-Sheet_Die-Wertschöpfungskette_von_Schokolade_Online.pdf

Registered association Welthaus Bielefeld (ed., 2009): "Schoko-Expedition… zu Naki nach Ghana". Materials for an activity-oriented cocoa journey for multipliers of school and out-of-school education: Target group: 8 to 11 years.

Tip: Workshop

Südwind offers workshops on chocolate throughout Austria (*"From cocoa bean to chocolate")*. Age group: 8 to 13 years > further information: www.suedwind-agentur.at > workshops > "Schoko-Workshop" [chocolate workshop]

Impulse for students

TOPIC: WHAT IS CHOCOLATE MADE OF AND HOW IS IT MADE?

Chocolate is made of the seeds of the cocoa tree, the cocoa beans. Later, other ingredients (like sugar, milk, cocoa butter or hazelnuts) are added. The cocoa tree grows in tropical countries. The cocoa beans for our chocolate are primarily from West Africa (near the equator, so in the center of the globe). The Ivory Coast is the world's largest producer of cocoa and also Ghana and Nigeria export large quantities of cocoa.

Take a look at the globe and search for the three countries!

From the cocoa bean to chocolate – which individual production steps are necessary?

- Cocoa farmers plant the cocoa tree.
- They cultivate the plant (pruning the plant, fertilizing, often pesticides are used).
- They harvest the cocoa fruits.
- They open the cocoa fruits and take out the cocoa beans and the pulp.
- The cocoa beans ferment (swell) and dry.
- The beans are packed in bags.

Trade (step 1)

The farmers sell their products to the intermediary → the bags are brought to the large ports in the country → transport by ship to an industrial country → transport by truck to the target places where chocolate is made from the cocoa beans.

Processing of the cocoa beans in an industrial country (e.g. Austria)

- Cleaning and roasting
- Pulverizing to bitter cocoa mass and cocoa powder in large industrial facilities
- Milk, cocoa butter, sugar and other ingredients are added to the cocoa mass; chocolate is made from these ingredients.
- Once the cocoa mass is squeezed → cacao butter and cocoa powder
- Packaging

Trade (step 2) and sale

Transport to the shops → sale → consuming → disposing of the packaging

The "chocolate marketplace" thus encompasses a long distance – from growing in Africa (Ivory Coast) to selling in Europe. The cocoa beans are not processed in the home countries of the cocoa trees, but e.g. in Austria. Here, the beans are first roasted, then pressed in the form of cocoa mass and finally grinded to cocoa powder.

Another company, the candy company, produces the chocolate mass and creates various candies from that, e.g. chocolate Easter bunnies. The candy company deals with the production and marketing of the chocolate. For that, the goods have to be delivered to the shops (e.g. supermarkets). Advertising shall stimulate the consumers to buy the chocolate. You can then buy the chocolate in a supermarket or a smaller shop.

What is a company?

A company offers goods (e.g. candy) or services (e.g. hairdressers, plumbers).

On the global chocolate market

Age	From 4th or 5th grade
Objectives	Learning about the production chain and the creation of value. Learning about who is involved in the chocolate market and understanding the consequences for conventional trade.
Time	Cut out role cards (see page 11) and chocolate
Procedure	Elisabeth Turek (on the basis of an idea from "Schoko-Expedition", see reference on page 10)
Idea	1. Cut the various roles (22 roles altogether) below out and put them in some kind of container (e.g. a cap) for the children to draw. 2. Each student draws a role. If there are fewer children than cards, the remaining cards are put aside for now. They will be used later. If the number of children exceeds 22, some of the children share roles. 3. The children read the texts on the cards one after another. Collect the terms that the children do not understand and explain them. 4. The children now stand in a logical order – along the way that the cocoa bean covers from the cocoa tree to the chocolate bar in the supermarket. In most cases, it is very obvious which place the individual roles have, but in some cases it is not that clear. Then, the children decide where to put this role or they can ask you. 5. If roles remain, the children find the appropriate place and put the card on a chair at the correct position. The text is read out loud by one of the children nearby. 6. Each role now steps forward and reads the text on his or her card out loud. The children perform a movement that they consider typical of their role (optional). After that, they step back again. 7. At the end of the chain, a bar of chocolate is lying on a chair that is afterwards handed out to the children. 8. To conclude the exercise, the children "shake their roles off" and "slip back into their own skins". Summarize the most important steps and explain what usual trade means to the cocoa peasants and what would change with fair trade (see page 14). Questions to the students: • Who or what is missing in the chain? As far as the transport to Europe is concerned, something has to be done – what comes to the minds of the students? • Who can have a say in the price of your favorite chocolate in the supermarket (very much, medium, not much or not at all)? Extension of the role play: Which roles could go together? The children are asked to form groups. A possible variant: Cocoa peasants/intermediaries and import company/employees in transport/company *"Sweet Dream"*, cocoa processing in Austria/stock jobber, trade authority and customs (not directly involved in the production and consumption)/sale (concern director and check-out operative)/consumers

Where does the chain start and where does it end?

Berta (64 years): The main thing to me is that chocolate is cheap. I can't afford expensive chocolate as retiree who only gets minimum pension!	I'm Paul (47 years) and work for the World Trade Organization (WTO) This is a trade authority. We take care of the regulations for global trade. Or motto is: free trade is most important and it is best if there are no obstacles, e.g. laws for the protection of the environment.
TV commercial for the chocolate "*Genussima extra"*: Extremely good! Now on offer just for a short time. Multipack (2 bars and more) for 80 cents per bar!	I'm Harry (44 years) and I work for a large trading firm in England. We import cocoa and have been trading with African cocoa for almost a hundred years. Last year, the plantations were flooded several times and the government was brought down. That's bad for trading; we hope the next year will be better.
Bettina (44 years): I'm the boss of the company "*Sweet Dream"*. I have to calculate our expenses strictly in order to make profit. Everything is expensive – sugar, cocoa mass and the other ingredients of chocolate. Then, tax, the wages for our employees, the transport and advertising for our chocolate is added as well.	I'm Franz (24 years): I only buy fair trade chocolate. The peasants should receive fair wages.
I'm Efua (43 years, female) and live in the Ivory Coast. I'm working on the cocoa plantation and pick the cocoa fruits. I use a large knife on a long stick to do that. I get about 1 euro and 50 cents (in our currency, this is about 900 francs) for 9 hours of work.	Milena (9 years): Yummy, waffles for children are my favorite; I always eat two of them at once. The ad is so funny – the dachshund with the large chocolate eyes!
I'm Axel (55 years) and the boss of the supermarket chain *"Shopping cheaply"*. Take a look at our stores, we have much space for candy and it's always very popular. Especially in the weeks before Christmas, we sell a lot.	I'm Aba (44 years), Efua's husband, and I work on a cocoa plantation in the Ivory Coast. At the moment, I'm planting cocoa trees on the cleared (deforested) areas of the rainforest. My back is hurting already!
I'm Abeena, the oldest daughter of Nana (18 years) and help my mother on the plantation. I pile the cocoa beans for fermenting before I dry them. Together with my mom, we sell the cocoa beans in bags to the cocoa dealer. I'd like to become a nurse, but my family can't do without me at work.	I'm Erika (26 years) and I work in a very large factory in Austria. Here, the cocoa beans are roasted. Once they are roasted, we make bitter cocoa mass and cocoa powder from it. These are then sent to the company called *"Sweet Dream"*. I scrape along on my wages. Oh my, a world trip would be fantastic!
I'm Gimka (36 years), dealer in the Ivory Coast. I buy cocoa from the cocoa peasants – at low prices, of course. The people sell at low prices because they need the money. Well, there is almost nobody else who buys the cocoa from them.	I'm Akua (9 years), Efua's son, and I help the grown-ups. My siblings and I knock the cocoa fruits open with a wooden stick. Then, we scrape the beans and the pulp out of the fruits. In times when there is much to do, I can't go to school.
I'm Linda (28 years) and work at the New York Stock Exchange. There, I sell several tons of cocoa daily using my computer. The cocoa isn't harvested yet and is still on the trees. In this area, I can make a lot of profit. What does a cocoa plant actually look like? I've never seen one.	I'm Erna (32 years) and I'm a truck driver. I smoke throughout Europe with my truck. Now, I'm driving my truck to the chocolate factory and bring the cocoa mass to the company called *"Sweet Dream"*. I have a lot of other appointments. I have to hurry and can only take short breaks.
I'm Mustafa (33 years) and have been working for the company *"Sweet Dream"* in Austria for 15 years. I start working at 7 o'clock in the morning and work at the machines. Everything is automatized – the stirring, the heating, the cooling… once the chocolate mass is ready, many chocolate products are made of it. My wife also works at the company, she packs the bars. Unfortunately, I don't like chocolate; I think the smell is horrible!	I'm Tom (20 years) and load the cocoa bags in a port of the Ivory Coast on the ship that brings them to Europe. I'm used to stack heavy loads with the help of a forklift. Well, I don't want to do this my whole life, but what else can I do?
I'm Nana (31 years), Aba's brother and I spray insect repellent on the cocoa plant, so that the insects do not harm the fruits. Sometimes, the repellent makes my head ache.	I'm Fritz (39 years) and work for Austrian customs. I check the goods that are imported to Austria. For each bag of cocoa beans, people have to pay import fees. This is important for the country so that Austria is not disadvantaged if lots of goods are imported.
Luisa (72 years): It is important to me that my chocolate is exquisite. I favor chocolate with cinnamon and oranges, yummy! I don't care if my chocolate is a little more expensive.	I'm Monika (33 years) and I'm a checkout operative in the supermarket *"Shopping cheaply"* and I use a scanner cash register. Peep, peep is what I hear all day. After six hours of work, my wrist starts to hurt sometimes.

FAQ on cocoa, chocolate and price formation

Why are the cocoa beans not processed in the Ivory Coast, but in an industrial country?

- There are high import fees for processed products (import tariffs) on the global market. For the import of raw materials into industrial countries, you have to pay less than for processed products. That would make chocolate on the global markets more expensive and the company would not be competitive.
- The cooling of the chocolate during the storage and on the route of transport (e.g. truck in the Ivory Coast to the ship) would be expensive.

Cacao, just like cotton, coffee and bananas, counts among the typical "cash crops" (agrarian products that are primarily produced for sale and export).

Most developing countries export raw materials and resources for processing and import intermediate and finished products from industrial countries. Cheap imports of fabrics and agriculturally subsidized foods (e.g. frozen chicken parts that do not have enough buyers in the North) from the industrial countries replace the offers on local markets.

Why do the ones who produce the cocoa only get so little money for the raw material?

These are some of the reasons: lack of a minimum price for cocoa resp. a strongly fluctuating price as well as exchange rate fluctuations, labor-intensive production, but only little means for the purchase of machines for assistance, failures of crops (vermin, dry spells etc.), pricing pressure and a lack of sale alternatives. On the global market, bad terms of trade and restrictions on import due to trade agreements in industrial countries play an important role for the competitive disadvantage of raw materials. These are defined by e.g. the World Trade Organization (WTO) or the International Cocoa Organization ICCO.

How many children work on the cocoa plantations?

In West Africa, approximately 250,000 children work on plantations. Their parents have such low incomes that many of these children are not able to go to school regularly because they have to help with the cocoa harvest and the subsequent work processes, so that their families have enough money to survive. There are also numerous reports of forced recruitment and slavery-like living conditions for children.

What happens at the Stock Exchange?

The global market price for cocoa is defined at the stock exchanges in London and New York. Traders on the financial market who conduct business with raw materials (at the stock exchange and outside) want to speculate on the price changes of food and cocoa.

Which country exports the largest amounts of cocoa and who are the largest chocolate enterprises?

The four largest chocolate corporations are: Mars, Kraft Foods, Nestlé and Ferrero. The advertising budget for candy was hundred times higher in 2011 than that for fruit and vegetables, namely 700 million euros (source: Südwind: "Die Wertschöpfungskette von Schokolade", see reference on page 10). The West African country Ivory Coast is the largest exporter of cocoa in the world with a proportion of 40% of globally traded cacao. The EU is the largest importer of cocoa beans worldwide; the production and consumption of chocolate products has increased over the past years.

How is a price for a specific product formed?

Prices are formed by the market mechanisms of supply and demand. The point of intersection of the supply and the demand curves defines the market equilibrium.

Tip: Link for information on price formation

www.bpb.de/nachschlagen/lexika/lexikon-der-wirtschaft/20309/preisbildung

The following factors play a role in the price formation of chocolate:

- Which other company also wants to sell chocolate (how many competitors are there)?
- How many buyers want to buy the chocolate (demand)?
- Which costs incur for a company for the production of chocolate (labor, delivery/transport, taxes etc.)?
- How much does a corporation/company pay for the raw material cocoa beans on the global market?
- Which trade, currency and customs agreements are there for the global market?
- How is the trade with raw materials regulated on the financial markets?

Impulse for students

TOPIC: WHO GETS HOW MUCH OF MY FAVORITE CHOCOLATE AND WHAT DOES "FAIR TRADE" MEAN?

In Central Europe, a person eats 2 bars of chocolate per week on average. This is very much, isn't it? How many do you eat per week? In a bar of chocolate are around 40 cocoa beans and in one fruit, there are ca. 30. For a bar with 18 small pieces: *What do you think is the proportion that a peasant in the Ivory Coast gets from a bar of chocolate for 1 euro?*

<u>A simple sample calculation</u>

For the sale of an ordinary bar of chocolate with 18 pieces, these people get …. of it:

- the dealers get the value of 6 pieces, the chocolate company gets the value of 7 pieces, the costs of transport and packaging have the value of 4 pieces. How much remains for the farmer?
  a) 4 b) 2 c) 1

For the sale of a bar of fair trade chocolate (bar with 18 pieces), these people get …. of it:

- the price for 3 pieces for transport and customs, 3 pieces for the shops and supermarkets, 4 pieces for the import organization EZA. How much is left for the farmer?
  a) 8 b) 6 c) 4

What is "fair trade"?

The fair trade of chocolate improves the working and living conditions of the cocoa farmers:

- participation of and cooperation of the farmers
- guaranteed minimum price for the products and delivery over a longer period of time
- advance financing of the harvest (the farmers receive money before they deliver the goods, so that they are able to grow cacao and plants or purchase tools)
- social rights (e.g. health care, school etc.)
- no exploitative child labor
- no intermediaries, so more money for the farmers is left
- there are strict regulations for the cultivation and the businesses and companies that comply with these regulations get a seal of approval (e.g. the fair trade seal).

Discuss the following questions together in class:

What is the difference between fair trade and ordinary trade? Does fair trade also have advantages for the people who eat chocolate – e.g. in Europe? Check in the supermarket which other products are fair trade (except chocolate)!

A question of justice

You have seen by the example of chocolate that wealth is not justly distributed to all people involved in the global chocolate market. The division of labor is advantageous for many people – but not for all of them. Usually, the people who sow, harvest, dry etc. the raw materials do not get much out of it. Efua, Aba, Abeene, Akua and Nana as producers are disadvantaged on the global market. They are happy to receive at least a little money and do not really have a say in the trade.

This is different with fair trade, where farmers usually work together in a cooperative (cooperative = farmers associate for common economic activity and marketing of agrarian products like cacao). By this, they are able to achieve better working conditions and higher incomes.

A social net of benefits, education, health care, and income that is sufficient for sustaining oneself are essential conditions for more justice on the markets. All these things prevent that people impoverish and have to take up exploitative jobs or jobs that are harmful to their health and the environment. In the industrial countries, this social net of benefits is primarily financed by taxes. People who have jobs, assets or properties have to pay taxes.

When there is talk of the “market”, it is important to know that we are all part of it. The different markets are transnationally networked; goods are bought and sold throughout the entire world, so that we can talk of a global market. You are also a small part of this global market when you buy things.

Which suggestions do you have for a more just distribution of wealth in the world?

5. FINANCIAL MARKETS

The stock exchange was already mentioned in the role play about the production and value creation chain (see chapter 4). The following section is an introduction to the subject area of the financial market, stock corporations and shares illustrated by the example of the chocolate LTD.

Tip: Film

A short film about the stock exchange and stock prices (suitable for children of the 4th grade, 9.26 minutes, WDR): "Die Börse kinderleicht erklärt (Börse – wie kann man da Geld verdienen?") > www.wdr.de/tv/neuneinhalb/sendungen/2009/08/2009_08_22.php5

"Aktien einfach erklärt" (suitable for children from the 5th or 6th grade onwards, 4.22 minutes, part I and II). By the example of the "Zitrus AG", this short film explains stock corporations, dividends etc. > www.geo.de/GEOlino/mensch/aktien-und-boerse-ganz-einfach-erklaert-72979.html?p=2

Impulse for students

TOPIC: FINANCIAL MARKETS AND THE CHOCOLATE LTD

There are also markets on which no goods are offered for sale. Newspapers often mention the financial markets, especially when talk is of the economy and the "financial crisis".

The financial markets have a common goal: How can you make even more money of money? Today, the trade on the financial markets is processed electronically, i.e. with the help of the computer. The trading is about the value of companies, but also e.g. about the prices of raw materials like cocoa.

A large marketplace for money is the **stock exchange**, where securities (so called **shares**) are traded. At a stock exchange, money is not exchanged for goods, but money itself is a good. Those who have money can bring it to the shares market and buy shares there.

An example: Mister Albert in France produces delicious chocolate – all flavors in all forms and sizes that you can imagine. Then, he has an idea: I need machines and someone who helps with my work. But how shall I pay for it? He thinks about founding a stock corporation (LTD) – a chocolate LTD. He goes to the bank and the bank determines the value of his company – his shop, his equipment and his recipes. Mister Albert's company has an overall value of € 50,000. The company is then quasi divided into many parts: 1000 shares at € 50 each. These shares can be bought and resold now.

If there are many people who want to buy a chocolate share, its value increases to e.g. 90 € at the stock exchange. Mister Albert is very happy about that because he makes profit. But if there are only a few people who are interested in his shares, the value of his shares decreases to e.g. € 40.

The rise and fall in values is called **stock price**. It can change within a minute, it can increase and decrease. The profit participation in a company is called **dividend**. It is paid out to the investors in regular intervals. Another word for splitting is dividing and thus the amount that the people get in the process of the apportionment of profits is called dividend.

Stock exchange

The stock exchange is a market, where people who want to buy and sell shares, meet. The price of a share is also called stock quotation. People who buy shares are called shareholders (another term for that is investor). The profits made by the shares are divided among them.

Tip: Links and materials

Rental from BAOBAB – Global learning (www.baobab.at):

- Welthaus Bielefeld (2009): "Schoko-Expedition… zu Naki nach Ghana". Materials for an activity-oriented cocoa journey for multipliers of school and out-of-school education.
- Schultze, Miriam; Müller, Andreas; Wacker, Ulrich (2002) "Moneten, Kohle, Kies und Schotter." Children experience the economic world by information suitable for children, exciting stories, games, handicraft work and suggestions for activities.
- Zbinden, Nadia; Wyssen, hans-Peter (2002): "Süßholz. Produzieren – Konsumieren".

Federal Agency for Civic Education (2010): Topic sheets for primary schools. Basic economic education. Supermarkets, flea markets and other markets. > www.bpb.de/shop/lernen/thema-im-unterricht/36896/grundwissen-wirtschaft-super-floh-und-andere-maerkte

Teaching and learning materials on the topic "Money and sustainability": www.bne-portal.de > Education for sustainable development > teaching material

LOEWE/*Lernwerkstatt Österreichs Wirtschaft Elementar.* Provided by the Economic Museum that explains economics for children between 9 and 12 years in a way suitable for children. > www.wirtschaftsmuseum.at/pdf/LOEWE.pdf

Erste Bank der österreichischen Sparkassen AG (Ed., 2012): Sparefroh TV. „Rund um das Geld". Three short films with teaching materials for the third and fourth grade on DVD and for download.

Schuh, Maria; Hellerschmidt, Brigitta; Lein, Therese; Neuburg, Renate (2008): "Mehr haben oder mehr vom Leben haben?" Texts and school examples regarding consumer education. Vienna: Edition *polis*, 2nd edition.

Both materials: www.politik-lernen.at > shop > filter "Wirtschafts- und VerbraucherInnenbildung"

Tip: References

Oppermann, Christine (2006): „Nachgefragt: Wirtschaft. Basiswissen zum Mitreden". Bindlach: Loewe Verlag

Beck, Hanno; Schwoch, Juliane (2011): „Der große Plan. Ein Wirtschaftsmärchenbuch nicht nur für Kinder". Frankfurt: Frankfurter Allgemeine Buch

Nützel, Nikolaus (2010): „7 Wege reich zu werden – 7 Wege arm zu werden". (suitable for children from 12 years). Munich: cbj

Liess, Hans-Christoph (2012): „Regiert das Geld die Welt? Wie die Wirtschaft funktioniert und warum die Krise immer wieder kommt". (suitable from 12 years). Würzburg: Arena

Financial Education

Subject: History/Social Studies/Political Education – The significance of the € for the economy and the population

"Financial Education"

TEACHING MATERIALS FOR:

HISTORY (AHS – Higher general education school)

GENERAL INFORMATION

SUBJECT & GRADE	**History/Social Studies/Political Education:** 8th grade (4th grade/junior classes)
TEACHING UNITS	2 units of 50 minutes each
TOPIC	**The significance of the € for the economy and the population**
CONNECTIONS TO THE CURRICULUM	- Europe and the EU; political participation and co-responsibility of Austria in the EU
TARGET COMPETENCES[1]	**- The students shall…** Be able to name the member states of the EMU (L2) Be able to reflect on the significance of the euro and its effects on Austria (L3) Be able to name convergence criteria for the introduction of the euro (L1) Be able to explain the objectives of the ECB (L2)
INTERDISCIPLINARY COMPETENCES	Capacity for teamwork and communication skills (exercise 2)
CONNECTIONS TO OTHER SUBJECTS	**Geography & Economics:** Financial market & financial and housing crisis
PREVIOUS CONTENTS IN THE SAME GRADE	**History:** The history of the Economic and Monetary Union

[1] Indication of the level of competence (L) from 1 to 3, where 1=recalling, 2=understanding, 3=problem solving

TOPIC PAPER: ECONOMICS AND FINANCE

The significance of the euro for the economy and the population

The euro was introduced in 1999 in the form of bank money and in 2002 in the form of notes and coins. By now, it is used by 17 countries resp. by around 332 millions of people as means of payment. The long-term objective is the usage of the euro in all of the current 27 EU countries for a thriving trade on the single European market. This topic paper gives information about the conditions for the introduction of the euro and outlines the benefits of the euro for the consumers and the economy. Furthermore, the role of the monetary policy of the euro system for the stability of the euro is highlighted. It significantly contributed to the fact that the euro quickly became – besides the US dollar – the second most important international currency. The financial, economic and debt crisis however also showed undesirable developments within the Economic and Monetary Union (EMU). The last section thus deals with reforms that shall enable the reorganization of the nature of the EMU and the stability of the euro in the medium-term.

The euro is the currency of around 332 millions of people

The euro was introduced with the start of the third stage of the Economic and Monetary Union (EMU) on the 1st of January, 1999 in the form of bank money (i.e. account-related, electronic usage on the financial markets) and was launched in the form of notes and coins and legal medium of payment on the 1st of January, 2002 in 12 European countries. By the discontinuation of monetary obstacles and the free movement of people, goods, services and capital, economic activities within the single European market (that came into existence in 1999) became significantly easier. Exchange rate fluctuations and the cost of exchange ceased to exist. Both of these factors lead to permanent, significant saving of expenses for the economy and the population and exceed the one-off costs of the changeover by far. Since the 1st of January, 2011, 17 EU countries resp. around 332 millions of people use the euro as their currency. The term “euro” was chosen in 1995 in the course of a meeting of the heads of states and governments in Madrid.

The introduction of the euro is linked to convergence criteria

The condition for the introduction of the euro is high convergence, i.e. the converging (or consistent) development of important economic indicators. This is necessary because only then politico-economic measures, such as changes in interest rates by monetary policy, can have the same (intended) effects in all countries. Therefore, the treaty on the functioning of the European Union (TFEU) states the relevancy of the convergence criteria for the introduction of the euro and names their complementary definition in protocol no. 13 (see the shortened version of the convergence criteria in the overview below). Meeting the convergence criteria by those EU countries that want to introduce the euro in the long term (and do not have a specific clause for the non-introduction) is checked and assessed by the ECB and the European Commission biennially. The final decision on whether a country can participate in the EMU resp. can introduce the euro is made by the European Council. Besides the economic, also the “legal” convergence plays a crucial role. This primarily means that the internal legal and administrative regulations of the national central banks and currency affairs have to be adjusted to the regulations of the TFEU resp. the ESCB/ECB statute[1] and to be implemented. These particularly include the independence of the national central bank and its admission to the Eurosystem.

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[1] see details: http://www.ecb.int/ecb/legal/1341/1343/html/index.de.html

Economic convergence criteria for the introduction of the euro

Price stability
Inflation rate according to Harmonized Index of Consumer Prices (HICP)
No more than 1.5 percentage points above the average inflation rate of those three EU member states that have the highest price stability

Sound public budget
Government budget deficit lower than 3% of the GDP

Government debt-to-GDP ratio lower than 60%
(or if higher, significant convergence towards this value)

Interest rate stability
Long-term interest rates not higher than 2 percentage points above the nominal interest rate of those three EU member states that have the highest price stability

Exchange rate stability
Participation in the exchange-rate mechanism (ERM) for two consecutive years without severe tensions within a range of +/- 15% to the euro

The benefits of the euro for the economy and the population

Stable currency and low inflation: The euro is a stable currency measured against its average inflation rate. Between 1999 and 2011, it was approximately 1.9% in the Eurozone and Austria. A stable monetary value preserves the purchasing power of incomes, protects the savers against the devaluation of their monetary assets and facilitates financial planning for enterprises (e.g. in the case of medium- and long-term investments).

Price transparency: A single currency enables price comparisons between 17 European countries. Thanks to the price indications denominated in euro, consumers are able to find the lowest prices without having to take fluctuating exchange rates or costs of exchange into account.

Price convergence: Price transparency leads to competition and lower prices within the Eurozone as well as to the harmonization of prices by tendency. It is a very slow process since differences in pricing policies of enterprises, in tax rates and in national income levels bring along differences in prices.

Lower interest: Prior to the EMU, interest already declined and has stayed at a low level ever since the introduction of the euro. Low interest enables the population to get loans easier, facilitate the financing of investments of enterprises and also reduce the financing costs of government debts.

Discontinuation of costs of exchange and easier money transfer: With the euro, individual traveling within the Eurozone is easier and cheaper since there are no expenses for currency exchange anymore. Additionally, costs of transactions for the exchange of currencies or exchange rate risks cease to exist for enterprises – trade activities thus become significantly easier.

Secure means of payment: The euro notes have various safety features and thanks to their quality and design, they count among the most forgery-proof notes in the world. In 2011, there were 600,000 counterfeit notes compared to 15 billion real notes. In 2010, there were only 8,800 counterfeit notes compared to 500 million real notes with a value between 25 and 27 billion euro in Austria. With around 5,500 counterfeit notes, there were even fewer in 2011. The Austrian proportion of all counterfeit notes is approx. 1%.

Quick and safe bank transfers: By the Single European Payments Area (SEPA), the payment transactions between the countries of the Eurozone are quicker and safer. IBAN and BIC also make transfers for consumers usually less expensive. For enterprises, SEPA also enables a cost advantage within a single market with constantly increasing trade.

The euro makes financial services cheaper and improves them: The euro brings more competition for banks, insurance companies and pension and investment funds about. Consumers can also cross-nationally compare offers. Due to this development, these kinds of services have become less expensive.

The benefits of the euro
The European economy benefits from it because… • The euro became global money • The Eurozone is a large economic area • The integration of financial markets is growing • International trade is promoted
The member states of the EU benefit from it because… • Stable prices and the low inflation rate strengthen the social climate • Lasting sound public budgets are promoted • Interfering economic influences (shocks) can be dealt with in a better way
Enterprises benefit from it because… • Significant trade facilitations are created (exchange rate risk and fees cease to exist) • Low interest means more investments
Consumers benefit from it because… • Greater competition is created • Price transparency is created • The prices are stable to a large extent and the spending capacity is strengthened • Travelling is easier and less expensive • Lower interest makes cheap loans possible
Employees benefit from it because… • The integration of the employment markets is promoted • Stable prices created many new jobs in the Eurozone

Euro strengthens international role

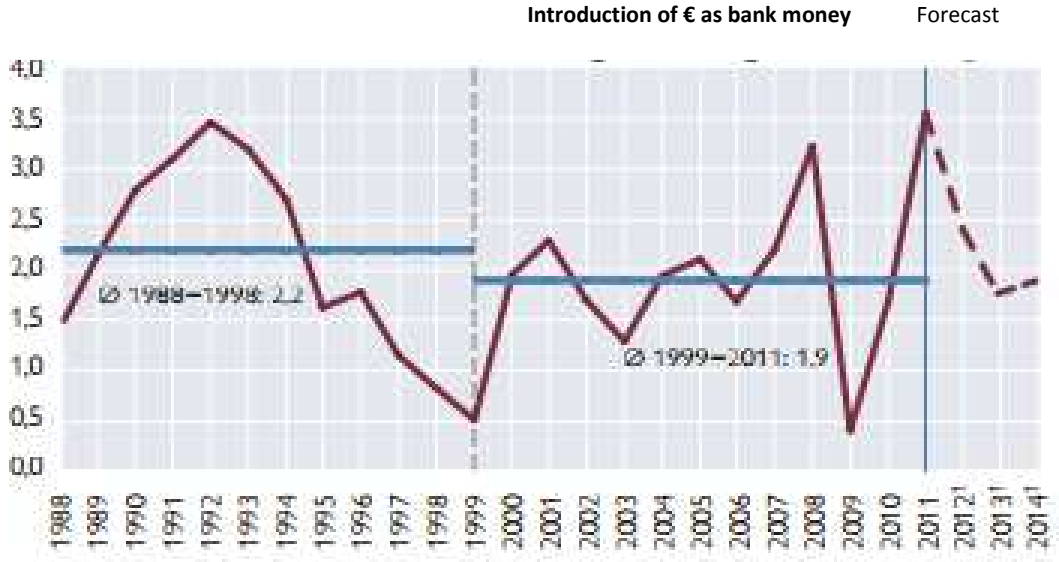
The international role of a currency is usually measured by its functions of investment, issuance, reserve, invoicing, transaction and anchor currency within the exchange rate policy. Some data highlight that the euro became established as the second global currency in the course of years and as efficient catalyst for financial market integration. As early as in 2008, the circulation of euro cash was already higher than that of the US dollar. The proportion of bonds denominated in euro increased from 22% (1999) to 30% (2011). The proportion of the euro in the form of reserve currency extended from 18% in 1999 to 26% in 2011. Moreover, about 40 countries oriented their exchange rate policies to the euro.

Austria's economy benefits from the euro

The euro and the EMU have generated significant prosperity profits in Austria. The Eurozone with its around 332 million inhabitants opened an economic area to Austria that is home to about 40 times more people and the economic output of which is with 9,400 billion euro around 30 times larger than that of the domestic economy – facts that were advantageous for Austria. In 2011, the economic output of Austria per inhabitant (per capita GDP; € 32,3000), which is seen as indicator of wealth, counted among the four highest in the Eurozone.

The euro causes low inflation in Austria

Changes in the Harmonized Index of Consumer Prices (HCIP)
as compared to the previous year in %

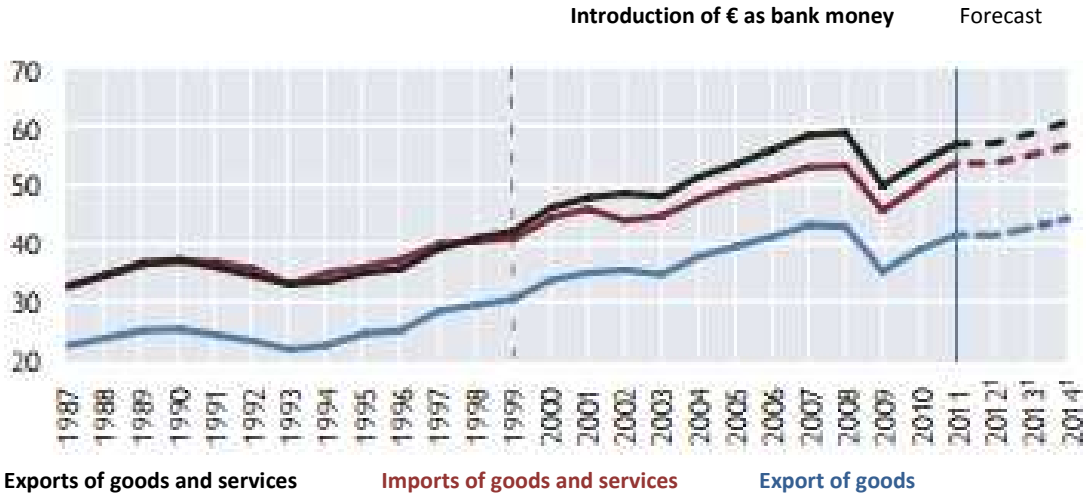


Source: Statistik Austria, EU Commission
[1] Forecast values of the EU Commission from fall 2012

The euro strengthens Austria's export economy

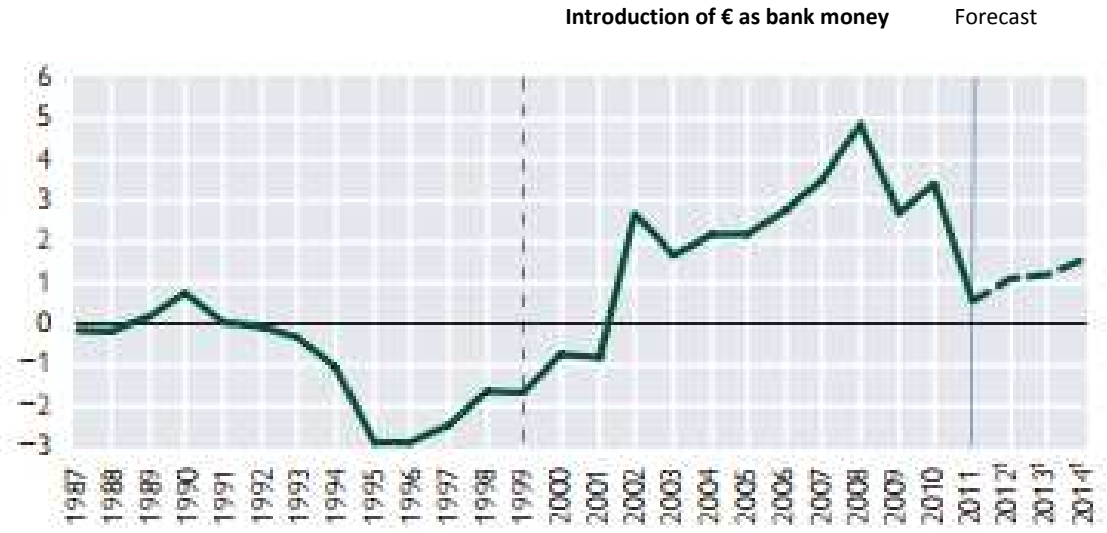
Export and import quotas

In % of the nominal GDP



Trade balance

In % of the nominal GDP



Source: Statistik Austria, EU Commission
[1] Forecast values of the EU Commission from fall 2012

Since 1999, the national economy of Austria annually grew in this exchange rate stable environment by 2% on average in real term, which means that it grew by half a percentage point stronger than the Eurozone. The unemployment rate was low in international comparison; employment grew dynamically for long periods (overall by about 350,000).

Austria's high price stability (the annual inflation rate between 1999 and 2012 was 1.9%), the resulting advantageous price-related competitiveness and economic integration contributed to a significantly improved foreign economic standing of Austria. The export quota (export of goods and services in % of the GDP) increased from 43% (1999) to nearly 60% (2011). About 57% of the exports go to the Eurozone and safeguard around half a million jobs in Austria. Since 1999, Austria constantly exports more goods and services than it imports. The Austrian trade balance has annually shown a surplus since 2002. Also the level of internationalization of the Austrian economy – an indicator of this are direct investments in relation to the economic output – underwent an upward trend. The (active) direct investments of Austrian enterprises increased fivefold from9.6% to over 50% between 1999 and 2011. In the same way, the investment of foreign enterprises in Austria increased from 12.2% prior to the introduction of the euro to almost 40% (2011) of the GDP. Thus, Austria as a small, export-oriented country, benefitted disproportionately from the euro. The drop in 2008 that was attributable to the crisis hit Austria hard as well (especially in 2009), but not as hard as many other countries and Austria was able to recover more quickly.

The euro is widely accepted within the population – the crisis dampened their mood

Economic operators were convinced by the euro from the beginning due to facilitated cross-national trading and easier business transactions. And also within the population, the euro was quickly accepted. It is possible by sentiment and attitude indicators to create an opinion profile of the euro for the Austrian population and partly also for the entire Eurozone. A study by the Austrian National Bank[2] shows two differing sentiment periods: On the one hand, an increasing and eventually high acceptance and contentment with the euro until 2009 and on the other hand – due to the debt crisis and its consequences – a declining pro euro attitude of the population from 2010 up to critical views at the height of the crisis in summer and fall 2011. In 2009, the confidence level was very high – almost 80% of all Austrians had a positive view towards the euro. This rating

was reduced to around 60% in fall 2010. Using the euro in one's daily life hardly causes any problems to the European population. The price structure of the euro prompts people to compare products etc. – especially products with high prices – with the old currency, the schilling or other previous currencies within the Eurozone. The euro is widely accepted as far as personal benefits are concerned: additional price transparency, less expensive and easier traveling and cost advantages with regard to payment transactions are benefits that the population does not doubt.

Monetary policy of the euro system guarantees the price stability of the euro

The responsibility of the monetary policy of the euro system – consisting of the ECB and 17 national central banks of those countries that have already introduced the euro – is to guarantee the price stability within the euro currency area. By definition of the ECB council – the supreme governing body of the euro system[2] – we speak of price stability if the annual increase of the Harmonized Index of Consumer Prices of the entire Eurozone is lower than 2% on average. By the monetary policy strategy that assesses a number of indicators that influence the price trend, the ECB council checks constantly forecasts for the development of the economy and of prices and makes decisions based on their results. Here, the base rates can be unaltered, increased or decreased. Higher base rates make loans more expensive, they diminish investments and consumption and the economic growth and the inflation rate decline. The contrary is true for lower interest. Besides the stability-oriented monetary policy, also the promotion of other aspects of economic policy is necessary for stable money: further pillars are particularly sustainable and stable budgetary policies as well as a dynamic structural policy that promotes the flexibility of the economy and price stability as well as secures economic growth and employment. So that interest impulses of monetary policy can effectively be transferred to the euro system, also a stable and functioning financial system is essential.

The euro offers protection during the economic crisis

The financial and economic crisis that started in the US in 2008 also hit Europe in fall 2008. The economic output declined and the unemployment level strongly increased: The inflation rate diminished significantly due to the declining prices of raw materials. The inevitable comprehensive support packages of the countries for the economy, the employment market and the banks burdened the public budgets and strongly increased the budget deficits. The euro and the cooperation of the central banks of the euro system themselves served as protective shield during this time of crisis and protected Europe and Austria against even more negative consequences. By the participation in a large currency area, enterprises are protected against strong fluctuations of exchange rates; devaluations within the Eurozone were not possible. The euro enabled Europe and its economic-political institutions to act quickly and resolutely. By coordinated processes regarding the measures of the monetary and economic policies, the damage for the financial sector and the economy could partly be averted. The money supply by the euro system was organized in a very flexible way and the base rates in the course of the crisis could be decreased to its lowest value since the establishment of the EMU and the introduction of the euro. In order to master the debt crisis, the ECB took unconventional measures. Examples of that are a three-year tender for the supply of liquidity of the banks within the Eurozone as well as the purchase of government bonds of overindebted countries on the secondary market.

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[2] See Fluch, M. and Schlögl, S. 2012. "Der Euro – ein Stimmungsbild 10 Jahre nach der Bargeldeinführung." In OeNB. Geldpolitik & Wirtschaft Q1 2012.

[3] The ECB Governing Council consists of the President and the Vice-president, the four members of the Board of Directors and the 17 governors of the national central banks, i.e. the council is thus comprised of 23 people, including the governor of the Austrian National Bank. The principle for decisions is: 1 member – 1 vote.

[4] Those interest rates that apply to the borrowing of money by commercial banks from the national central banks

Crisis reveals undesirable developments of the EMU…

It is without doubt that the crisis that started in 2008 revealed undesirable developments. The national debt got out of control in several euro countries by the financial and economic crisis and partly also by a lack of budgetary discipline. A main reason for that was that the measures for saving and consolidation were insufficient in some of the countries prior to the crisis. Additionally, the interest also fell sharply for economically weaker countries subsequent to the entry into the EMU. This low interest rate level tempted private and public households to accumulate huge debts. Finally, not enough attention was paid to emerging macroeconomic imbalances that could affect the performance of some countries' economies of the euro currency area or the entire EU.

… which requires profound reforms in the medium term

In order to master the crisis and to reorganize the structure of the EMU in the medium term, various measures were initiated on a European and national level. They serve the strengthening of economic-political finances, stabilization of the European banking system and accompany reforms that are meant to guarantee lasting growth and additional competitiveness[5]. In order to master the debt crisis, there were specific politico-economic measures in the form of rescue funds of the EU countries. The European Financial Stability Facility (EFSF) was created that provided a volume of credit amounting to 440 billion euro by the issuance of bonds. In addition, the International Monetary Fund (IMF) and the European Financial Stability Mechanism (EFSM) of the European Commission grant credits to the euro crisis countries that have to be repaid with interest. In 2011, the EFSF and EFSM were replaced by a permanent rescue fund, the European Stability Mechanism (ESM). By this rescue fund that is effective since October 2012 credits amounting to 500 billion euro can be processed resp. liquidated.

Mastering future challenges with the euro

Even though a number of stabilizing measures were taken, the mastering of the crisis and the strengthening of the euro as stable currency requires further efforts. Examples are:

- Overcoming economic weakness permanently, boosting economic growth within the Eurozone and creating new jobs
- Orienting monetary policy to the primary objective of price stability and equally counteracting possible deflation as well as higher inflation
- Creating and guaranteeing the stability of the financial markets by the reorganization of the financial markets and reformed supervisory structures over the long term
- Increasing competitiveness by promoting structural reforms concerning the flexibility of the markets, improved education and additional research
- Implementing consolidation consistently and quickly after the crisis period with excessive public budgetary deficits in order to achieve sound budgets over the long term
- Not only making the euro and the benefits of integration visible in the form of an economic success story, but also seeing it as a social and security policy project with the objective to strengthen social peace and to increase wealth.

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[5] Also see "Fakten zum Euro" under http://www.oenb.at/de/press_pub/period/pub/unternehmen/oesterreichische_nationalbank.jsp

Europe cannot do without a common currency

The European Single Market is also in need of a common currency in order to be fully effective. By the integration of the 17 countries to the euro currency area, the second largest national economy in the world after the US was created measured by the GDP. The euro thus gives a strong voice to the Eurozone and the EU regarding global economy.

Further and current information:

http://www.oenb.at
http://www.ecb.int
http://ec.europa.eu

Explanations and comments on the terms that are used in this topic paper can be found in the glossary of the Austrian National Bank under http://www.oenb.at/de/glossar/glossar_alles.jsp

TOPIC PAPER: ECONOMICS AND FINANCE – DIDACTIC INSTRUCTIONS

The significance of the euro for the economy and the population

The significance of the euro for the economy and the population

Exercises:

1. Mark those countries in the illustration below in which the euro is used as cash money and legal tender.

AT	Austria	IT	Italy
BE	Belgium	LT	Lithuania
BG	Bulgaria	LU	Luxembourg
CY	Cyprus	LV	Latvia
CZ	Czech Republic	MT	Malta
DE	Germany	NL	Netherlands
DK	Denmark	PL	Poland
EE	Estonia	PT	Portugal
ES	Spain	RO	Romania
FI	Finland	SE	Sweden
FR	France	SI	Slovenia
GR	Greece	SK	Slovakia
HU	Hungary	UK	United Kingdom
IE	Ireland		

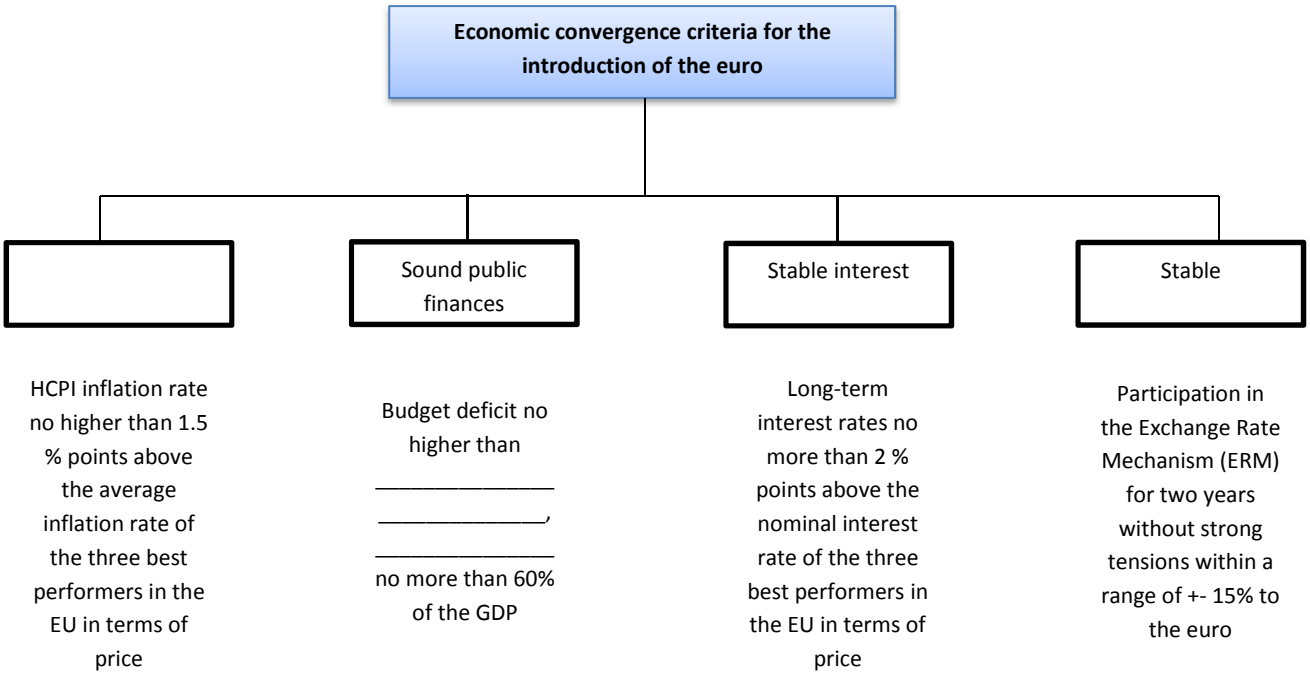
2. What would happen if the euro did not exist and all European countries had currencies of their own again? Research the consequences of a “Europe without the euro” for the following circumstances within groups and present your results with the help of a PowerPoint presentation.

- Purchase abroad via the internet
- Export of goods in a country of the euro area
- City trip to Ljubljana
- Import of goods from Italy
- Possible consequences for Austria in the case of a crisis

3. Mark the correct answers with a cross: Do the following statements refer to cash money or bank money?

Statement	Cash money	Bank money
Their mother withdraws € 50 from the cash machine.		
Their monthly pocket money is transferred to their student account.		
Their parents purchase a painting by auction over the internet and pay via PayPal.		
Their father always pays his parking fees with the so-called “electronic” purse.		

4. Complete the following figure:



5. The objective of the monetary policy of the ECB is the price stability of the euro, i.e. a low inflation rate. Why is price stability important?

_____
_____
_____
_____
_____
_____
_____

6. Match the following circumstances with the individual benefits of the euro for the population and the economy.

Circumstances	**Benefits of the euro**				
	Stable currency	Price transparency	Price convergence	No more costs of exchange	Low interest
Foreign bank transfers within the Eurozone got less expensive					
Euro loans are easier to obtain					
The currency devaluation (inflation) is on a lower level over the long term					

7. The euro is taken for granted by you. This was not the case for many older people when the euro was introduced in the form of notes and coins.

Research this issue in groups (internet research including older newspaper articles, interviews with parents, grandparents, acquaintances etc.).

- What were the reasons for the insecurities at that time?
- What are the special benefits of a single European currency from the point of view of people?
- In which way did the media and the political parties comment on the introduction of the euro?
- How is the significance of the euro seen during the current crisis?

8. Which of the following statements are correct resp. incorrect? Correct the incorrect statements.

Statement	Correct	Incorrect	Correction
Since the introduction of the euro, Austrians have invested less abroad than before.			
Since the introduction of the euro, Austria has sold more goods to foreign countries than ever.			
The introduction of the euro in the form of cash caused a minus in the trade balance.			

The significance of the euro for economy and population

Suggested solutions:

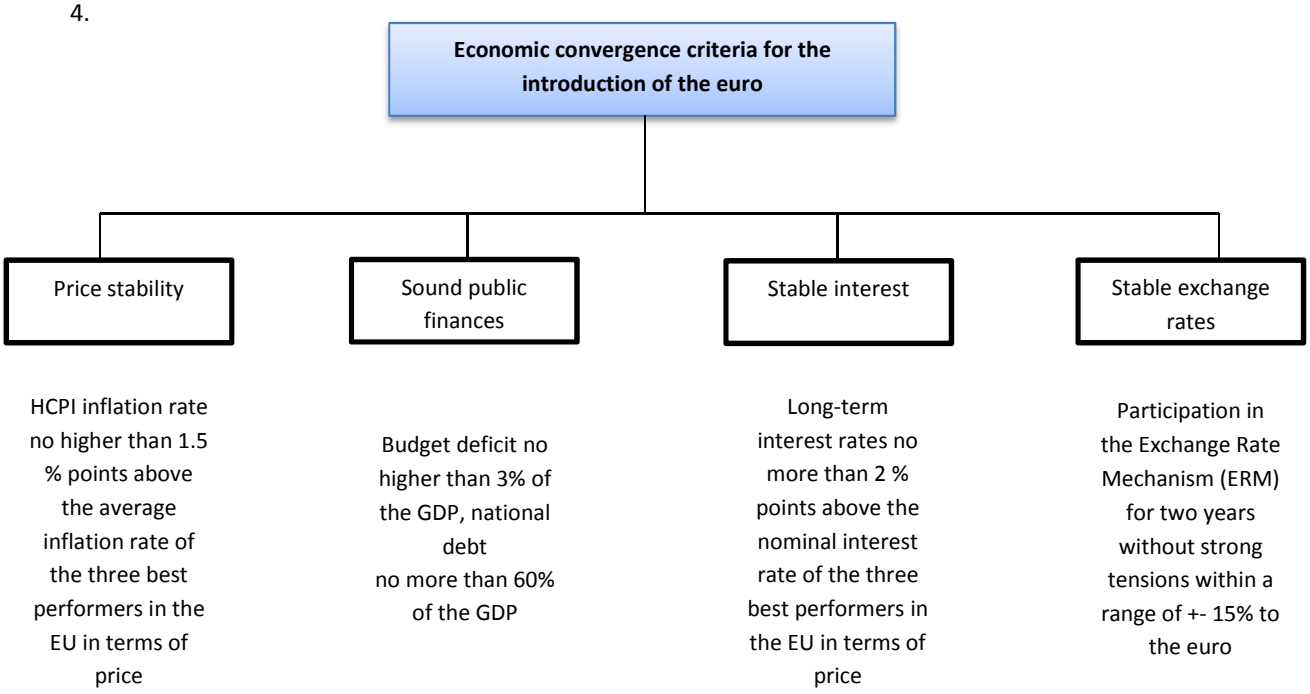
1. Belgium, Germany, Estonia, Finland, France, Greece, Ireland, Italy, Luxembourg, Malta, Netherlands, Austria, Portugal, Slovakia, Slovenia, Spain, Cyprus

2. Individual student's solution

3.

Statement	Cash money	Bank money
Their mother withdraws € 50 from the cash machine.	X	
Their monthly pocket money is transferred to their student account.		X
Their parents purchase a painting by auction over the internet and pay via PayPal.		X
Their father always pays his parking fees with the so-called "electronic" purse.		X

4.



5. A stable monetary value preserves the purchasing power of incomes, protects the savers against the devaluation of their monetary assets and facilitates financial planning for enterprises (e.g. in the case of medium- and long-term investments).

6.

Circumstances	**Benefits of the euro**				
	Stable currency	Price transparency	Price convergence	No more costs of exchange	Low interest
Foreign bank transfers within the Eurozone got less expensive				X	
Euro loans are easier to obtain					X
The currency devaluation (inflation) is on a lower level over the long term	X				

7. Individual student's solution

8.

Statement	Correct	Incorrect	Correction
Since the introduction of the euro, Austrians have invested less abroad than before.		X	*Since the introduction of the euro, the direct investments of Austria abroad increased fivefold.*
Since the introduction of the euro, Austria has sold more goods to foreign countries than ever.	X		
The introduction of the euro in the form of cash caused a deficit in the trade balance.		X	*Since the introduction of the euro in the form of notes and coins, the trade balance has shown a surplus.*

Financial Education

Subject: History/Social Studies/Political Education – The history of the Economic and Monetary Union

"Financial Education"

TEACHING MATERIALS FOR:

HISTORY (AHS – Higher general education school)

GENERAL INFORMATION

SUBJECT & GRADE	**History/Social Studies/Political Education:** 8th grade (4th grade/junior classes)
TEACHING UNITS	2 units of 50 minutes each
TOPIC	**The history of the Economic and Monetary Union**
CONNECTIONS TO THE CURRICULUM	- Europe and the EU; political participation and co-responsibility of Austria in the EU
TARGET COMPETENCES[1]	**- The students shall…** Know the chronology of events referring to European integration and be able to describe them (L2) Be able to critically reflect on questions on the enlargement of the EU (L3) Be able to explain the convergence criteria of the introduction of the euro (L2)
INTERDISCIPLINARY COMPETENCES	Analytical competence (article taken from the Austrian newspaper "Die Presse")
CONNECTIONS TO OTHER SUBJECTS	**Geography & Economics:** Financial market & financial and housing crisis
PREVIOUS CONTENTS IN THE SAME GRADE	**none**

[1] Indication of the level of competence (L) from 1 to 3, where 1=recalling, 2=understanding, 3=problem solving

TOPIC PAPER: ECONOMICS AND FINANCE

The history of the Economic and Monetary Union

The Economic and Monetary Union (EMU), the most visible element of which is the euro, came into existence in 1999 and was developed in several stages. After the experiences of the postwar period and WW2, the European integration was initiated as peace project. It was based on the idea that national states that work closely with each other and have common objectives do not deal with their conflicts by wars. The unification process has since then proved to be a success story. The European Coal and Steel Community (ECSC) that was established in 1952 evolved into the European Economic Community (EEC), the European Community (EC) and eventually into the EU with a single market.

The course for the three-stage establishment of the EMU was set in the late 1980s after long, unsuccessful efforts. In 1999, the euro was introduced in the form of bank money. The creation of a single currency area is one of the most important integration steps in the history of the European Union (EU). The euro countries replaced their national currencies by a common, single currency – the euro – and handed their monetary policy responsibilities over to a supranational institution – the ECB.

Establishment of the ESCS

The European integration traces back to a German-French initiative. Age-old rivalries, especially between Germany and France, were meant to be reduced by the common control over strategic industrial industries such as coal and steel. The idea for the union of the Western European steel and coal industry came from the Frenchman Jean Monnet and was publicly presented by the French foreign minister Robert Schuman. By the Treaty of Paris, the *European Coal and Steel Community (ECSC)* was finally founded in 1951. It was the first supranational organization. The difference to the participation in international organizations (e.g. United Nations, World Trade Organization) was that the participating national states handed a part of their responsibilities over to a superior level that is permitted to make binding decisions and set regulations for the individual member states. In order to secure inner-European peace, the ECSC consisted of the victorious powers and the losers of WW2 (member states were: Federal Republic of Germany, France, Italy, Netherlands, Belgium and Luxembourg).

The European Economic Community and the European Community (EG)

In 1957, the six member states of the ECSC decided on the establishment of the *European Atomic Energy Community (EURATOM)* and the *European Economic Community (EEC)* with the Treaties of Rome. The former aimed at the promotion of nuclear research and securing of peace by mutual control of nuclear power. The aim of the latter was the elimination of trade and customs barriers between the member states and the creation of a single market. The first stage of this process was the creation of a customs union. This is a uniform customs area where there are no customs fees for the import and export of goods, other trade barriers – like limitations in terms of quantity – are removed and a common tariff applies to third countries. Furthermore, also the legal and administrative regulations of the member states had to be adjusted to each other. By a common competition law, the effects of competitive distortions of different national regulations were eliminated. Moreover, also common strategies for external trade, agriculture and transport were included in the foundation treaties. The three existing European communities (ECSC, EURATOM and EEC) were united in a

merger agreement in 1967 – the *European Community (EC)* came into existence. As a consequence thereof, common institutions were founded – the European Commission and the Council[1].

The planned European economic integration first built on a sound international currency system – the Bretton Woods system – that was characterized by fixed exchange rates and the convertibility of dollar to gold ("gold standard"). From the mid-1960s, there were tensions within this system that were primarily caused by high US-American balance of payments deficits (i.e. more goods and services were imported than exported). In order to promote economic integration, there had to be closer cooperation in terms of monetary issues. The countries of the EEC were – already at this time – economically closely linked to each other and showed a strong orientation to foreign trade. Due to this openness, they were strongly affected by fluctuations in exchange rates that were accompanied by significant costs. The monetary integration was thus put more into the center of attention.

Monetary union according to the Werner Plan failed

In 1969, the European Commission submitted the so-called Barre Plan in order to strengthen monetary cooperation. On the basis of this concept, the European Council (heads of states and governments of the European Community) requested the Council of Ministers to create a plan for the actualization of the Economic and Monetary Union (EMU). The responsible working committee was under the command of the Prime Minister of Luxembourg Pierre Werner, after who the Werner Plan that included three stages for the establishment of the Economic and Monetary Union was named.

In 1971, the Council of Ministers passed a decision of general principle on the establishment of this Economic and Monetary Union on the basis of this concept. The first stage already started in the same year and included complete currency convertibility – the irrevocable liberalization of capital transactions. The aim was to achieve the Monetary Union by 1980. Due to the circumstances at the beginning of the 1970s – dollar crisis, collapse of the Bretton Woods system, transition to flexible exchange rates, global recession due to the oil price shock and the increase in inflation – this first attempt of the establishment of an Economic and Monetary Union failed. However, it led to important decisions resp. to the establishment of institutions that were crucial for the further monetary integration of the European Communities. In April 1972, the so-called *European Currency Snake* ("snake in the tunnel") was introduced that attempted at stabilizing fluctuations of the European currencies. In 1973, the European Monetary Cooperation Fund was founded and a system of the financial support in case of difficulties in the balance of payments was introduced.

Economic Union – Monetary Union
An *economic union* gears to a single market. In order to achieve this, customs barriers have to be eliminated, legal and administrative regulations have to be adjusted and a free and fair competition has to be secured. Another condition for the achievement of a successful economic union is close politico-economic cooperation, especially in terms of fiscal policy. A *monetary union* is a union of several sovereign countries to a single currency area with the same currency. It requires absolutely fixed exchange rates and the complete liberalization of transnational capital transactions. There is a single monetary policy within a monetary union.

[1] The Council is not the same as the European Council that consists of the heads of states and governments of all member states and the President of the European Commission. In colloquial speech, the Council is also called Council of Ministers resp. since the Maastricht Treaty it is referred to as the Council of the European Union, since it meets in varying compositions depending on the policy field (e.g. ECOFIN = Ministers of Economic Affairs and Ministers of Finance).

The Delors Report determines the three-stage establishment of the Economic and Monetary Union

Another attempt at monetary integration was initiated by the German Federal Chancellor Helmut Schmidt and the French President Valérie Giscard d'Estaing. This initiative eventually led to the creation of the *European Monetary System* (EMS). It became effective in 1979 and replaced the currency snake. Just like its predecessor, the EMS geared to the creation of a stable currency zone. Besides a financial support system and an exchange rate intervention mechanism, it also included the introduction of the European currency (European Currency Unit, ECU). This currency – frequently seen as the predecessor of the euro – was a calculation unit the value of which was the result of the range of European currencies.

The objective of creating a monetary union was again confirmed by the *Single European Act of 1987* that represented the legal basis of the actualization of the single market by 1993 and also laid down the aim to establish the European Union. Once again, the European Council appointed a working committee for expediting the development of the Economic and Monetary Union. The Delors Plan – that was named after the President of the Commission, Jacques Delors – included three stages, just like its predecessor, the Werner Plan. It is the basis of the design of the Economic and Monetary Union.

Maastricht Treaty: The European Union

On the basis of the three stages of the Delors Report, it was decided to start the first stage of the monetary union on the 1st of July, 1990 and to summon government conferences for the concrete design of the next two stages. The elaborate foundation treaty was approved by the European Council and took effect in 1993. It is the foundation treaty of the European Union (EU) that also included steps towards a political union, such as the union citizenship, besides the Economic and Monetary Union. According to the Maastricht Treaty, the EU is based on a three-pillar-model: The first pillar was formed by the three already existing European Communities (ECSC, EURATOM and the EEC that was renamed EC). The second and third pillars represented the new areas of cooperation: The Common Foreign and Security Policy (CFSP) and the police and judicial cooperation in criminal cases.

The Economic and Monetary Union was introduced by three stages with fixed deadlines. While the Economic Union was primarily based on the already achieved market integration and was not in need of a new institution, the establishment of the Monetary Union with a single currency was the most comprehensive project.

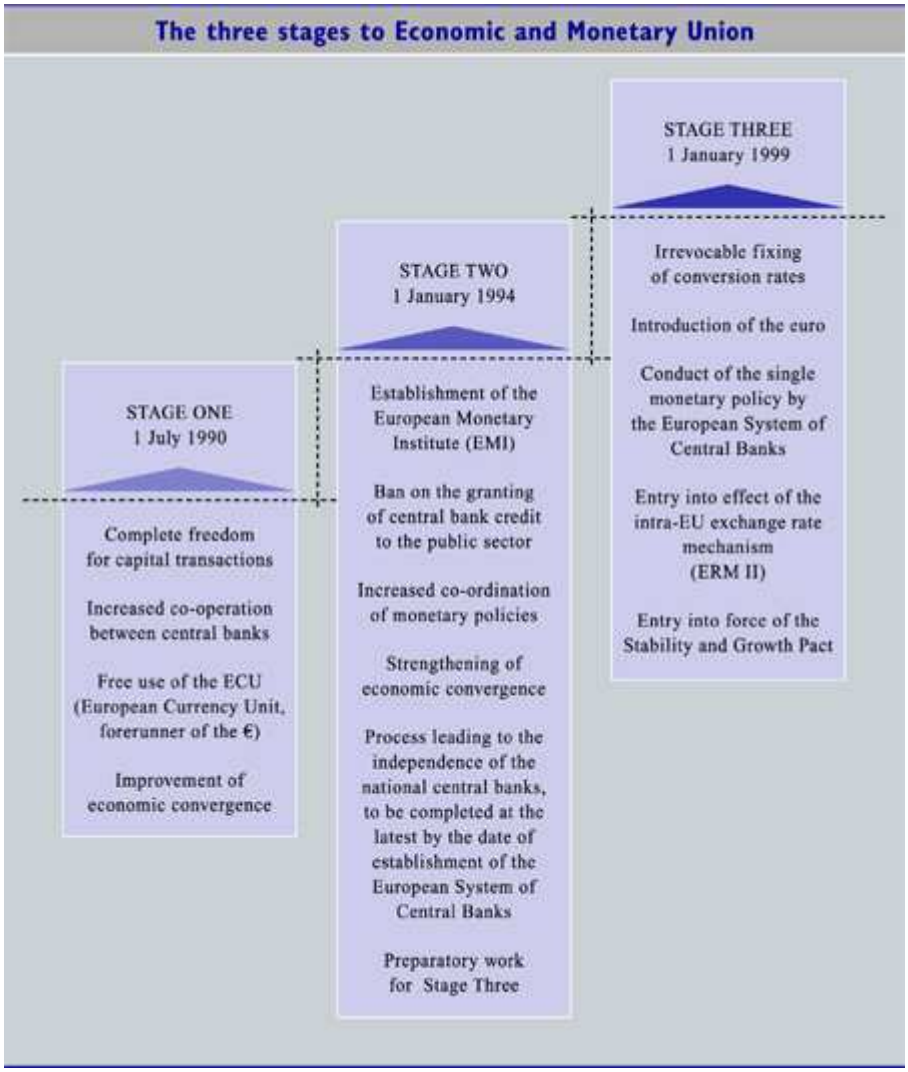
The Economic and Monetary Union (EMU) started in 1999 with 11 EU countries

As shown in the following diagram, the second stage was already initiated on the1st of January, 1994 and led to the establishment of the European Monetary Institute (EMI). This was meant to be the condition for a single monetary policy in the third stage and for the creation of the European System of Central Banks (ESCB). Monetary policy however was still the responsibility of the individual countries. In the third stage, the EMI was merged in the European Central Bank (ECB). In 1998, the decision on the participating countries in the Eurozone was taken and the exchange rates were irrevocably fixed. On the 1st of January, 1999, the euro was introduced in the form of bank money. At the same time, the euro system, the ECSB, the Stability and Growth Pact and the new Exchange Rate Mechanism II started to exercise their responsibilities. The condition for the participation in the euro currency area was meeting the convergence criteria that should ensure that the economic development within the Economic and Monetary Union is balanced. These convergence criteria have still to be met if a country wants to join the Eurozone:

- **Price stability:** The inflation rate must not be more than 1.5 percentage points above the average inflation rate of those three EU member states that have the highest price stability
- **Public budgets:** The government debt-to-GDP ratio has to be lower than 60%, unless it is significantly regressive, so that the reference value will be achieved in the future. The annual new indebtedness

(government deficit) has to be lower than 3% of the GDP, except there is a one-time and temporary exceedance of this reference value.

- **Exchange rate:** The potential member has to have participated in the exchange-rate mechanism (ERM) for two consecutive years without severe tensions within a range of +/- 15% to the euro.
- **Long-term interest rates:** The long-term nominal interest rate of the member state has to be lower than 2 percentage points above the nominal interest rate of those three EU member states that have the lowest inflation.
- The central bank has to be independent.



Source: ECB (www.ecb.int/ecb/history/emu/html/index.de.html)

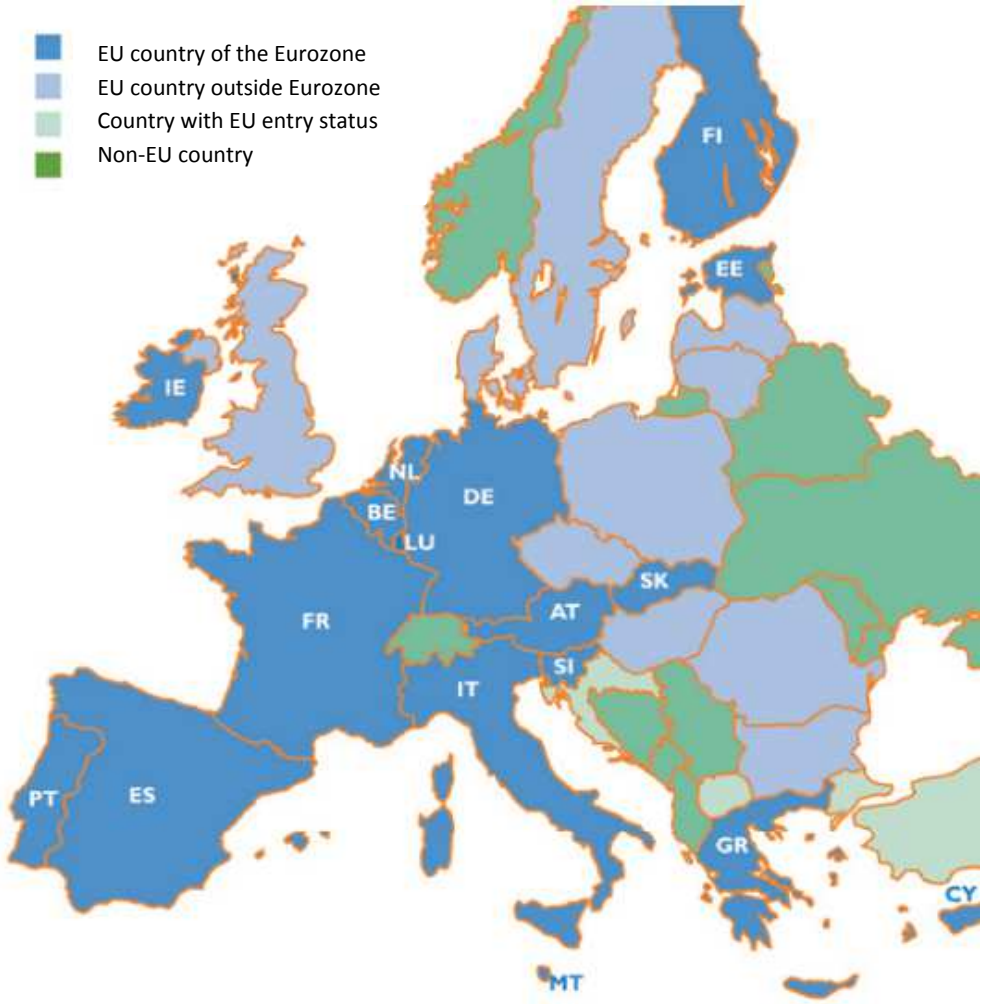
Those who meet the criteria are admitted

The decision on the admission of the following 11 countries by the European Council took place in May, 1998: Belgium, Germany, Finland, France, Italy, Ireland, Luxembourg, Netherlands, Austria, Portugal and Spain. Denmark and Great Britain decided against the participation in the single currency area, Greece and Sweden[2] did not meet the convergence criteria. The irrevocable exchange rates of the national currencies to the euro were fixed on the 31st of December, 1998. The national currencies de facto became subunits of the euro.

From 1999, the national central banks were no longer responsible for monetary policy, but the ECB Council. It is comprised of six members of the ECB Executive Board and the Presidents resp. Governors of the national central banks of the euro system. One of the most important politico-economic instruments – monetary policy – is thus passed on to a supranational level. The primary responsibility of the ECB and the euro system is to guarantee price stability within the Eurozone because this is the best contribution that a trustworthy monetary policy can make to growth, employment and prosperity. Thus it is logical that the ECB and the national central banks of the countries participating in the Eurozone are highly independent from political impact.

Contrary to the central monetary policy, the fiscal policy is still the responsibility of the national states. Since the stability and coordination of public finances is the condition for a functioning Economic and Monetary Union, the Stability and Growth Pact was founded that determines the future Maastricht reference value in case of budgetary deficits. *(Also see ec.europa.eu/economy_finance/sgp/index_de.html)*

In 2001, Greece started to participate in the euro currency area. On the 1st of January, 2001, the Economic and Monetary Union was completed by the introduction of the euro in the form of notes and coins. In 2007, Slovenia became a euro country, in 2008 Cyprus and Malta, in 2009 Slovakia and in 2011 Estonia. The Eurozone currently consists of 17 EU countries (as of 2012).



[2] Sweden did not meet the convergence criteria because it did not enter the EMS.

Europe at the beginning of the 21st century

Besides the Economic and Monetary Union, the eastwards enlargements of the EU were the main progress towards a European union process. These required institutional reforms of the EU institutions in order to ensure the ability of the enlarged European Union to act. Here, the *Treaty of Nice* has to be mentioned that entered into force in 2003. It laid the foundations for the first eastwards enlargement including Estonia, Lithuania, Latvia, Malta, Poland, Slovakia, Slovenia, the Czech Republic, Hungary and Cyprus. Another reform of the European Union took place by the *Treaty of Lisbon* that became effective in 2009. It terminated the three-pillar-structure that has existed since the Maastricht Treaty. The already existing agreements were merged and the European Community was renamed European Union. The profound reforms led to an increase in impact of the Parliament and to a change in the resolution of the European Council. What is new is also the functions of an elected President of the EU Council (as of 2012: Herman van Rompuy) and those of a High Representative for Foreign Affairs and Security Policy (as of 2012: Catherine Ashton) who is the Vice President of the European Commission at the same time.

Further information:

http://ec.europa.eu/economy_finance/index_de.htm
http:europa.eu/
http://www.zukunftseuropa.at

Explanations and comments on the terms that are used in this topic paper can be found in the glossary of the Austrian National Bank under http://www.oenb.at/de/glossar/glossar_alles.jsp

Cornerstones of the European integration	
1952	European Coal and Steel Community (ECSC)
1958	Treaty of Rome: Establishment of the European Atomic Energy Community (EURATOM) and the European Economic Community (EEC)
1967	European Communities (EC): Merger of ECSC, EURATOM and EEC)
1969	Barre Plan (single currency)
1971	Werner Plan: Step towards Economic and Monetary Union
1973	Great Britain, Ireland and Denmark enter the EC
1979	European Monetary System (EMS)
1982	Greece enters the EC
1986	Spain and Portugal enter the EC
1987	Single European Act (SEA): Program for single market
1988	Delors Report to an Economic and Monetary Union
1993	European Union (EU): is based on the Maastricht Treaty that includes the creation of a European Economic and Monetary Union by 1999
1995	Austria, Finland and Sweden enter the EU
1999	Establishment of an Economic and Monetary Union (EMU), Introduction of the euro in the form of bank money
2001	Admission of Greece to the Eurozone
2002	Introduction of the euro in the form of notes and coins
2003	Treaty of Nice
2004	South-eastwards enlargement of the EU: Estonia, Lithuania, Latvia, Malta, Poland, Slovakia, Slovenia, the Czech Republic, Hungary, Cyprus
2007	Admission of Slovenia to the Eurozone
2007	Bulgaria and Romania enter the EU
2008	Admission of Malta and Cyprus to the Eurozone
2009	Admission of Slovakia to the Eurozone
2009	Treaty of Lisbon
2011	Admission of Estonia to the Eurozone

TOPIC PAPER: ECONOMICS AND FINANCE – DIDACTIC INSTRUCTIONS

The history of the Economic and Monetary Union

The history of the Economic and Monetary Union

Exercises:

1. Match the following events to European integration to the years:

1971	
1993	
1995	
2003	
2009	

(1) Maastricht Treaty

The foundation treaty of the European Union with a three-pillar-model takes effect. The Economic and Monetary Union (EMU) as the first pillar is complemented by a Common Foreign and Security Policy (CFSP) and the willingness to police and judicial cooperation in criminal cases.

(2) Treaty of Lisbon

Here, profound reforms, such as the disorganization of the three-pillar model, were included and the responsibilities of the European Parliament and the European Council were partly newly defined. In order to strengthen the European Union, the function of the President of the European Council was created and new functions of the High Representative for Foreign Affairs and Security Policy of the EU were decided on.

(3) Treaty of Nice

It laid the foundations for the first south-eastern enlargement with Estonia, Lithuania, Latvia, Poland, Slovakia, Slovenia, the Czech Republic, Hungary, Malta and Cyprus.

(4) Werner Plan

First steps towards a common economic and monetary union are developed by a working committee led by the head of government Pierre Werner.

(5) Austria enters the EU

… together with Finland and Sweden.

2. Please read the newspaper article on the annual enlargement report of the European Commission carefully and answer the questions below:

EU enlargement: Serbia becomes conditional candidate

The European Commission officially suggests Serbia as accession country of the European Union. Negotiations with Montenegro are to be started soon. In the meantime, Turkey is criticized harshly.

Brussels/Vienna. Serbia becomes an accession country and Brussels want to start first negotiations with Montenegro: These are the most important results of the annual enlargement report that the European Commission presented on Wednesday.

Both decisions were expected, but the results of the Commission that deal with constitutional and politic-economic progress of the Balkan countries as well as of Iceland, also reveal the existing difficulties. For Serbia, for example, the door to the European Union remains closed until the relationship to Kosovo is normal again. If Serbia "again participates in the dialogue with Kosovo and implements the decided agreements quickly and trustfully", the Council – the decision-making body of the national governments – shall offer the accession status to Serbia, the report says.

No countries which are unwilling to initiate reforms

Negotiations in terms of content shall now be started with Montenegro. EU Enlargement Commissioner Stefan Füle generally spoke in high terms of the reforms of Montenegro, but in the report of his officials the country was harshly criticized. "The success in the battle against serious crimes, especially high-level corruption, has to be further developed", says the report. And further down, it says: "The overall number of financial investigations and confiscation of criminal assets is still low." In order to put this in perspective (sic!): The commission has almost used those exact words to describe the protracted judicial and police reforms in the EU member states Bulgaria and Romania for years. European governments agree to never let another country enter the EU that is similarly unwilling to initiate reforms as the two latter ones mentioned. This was already the case for Croatia in their negotiations.

This year, Turkey was not praised either. The Commission indeed mentioned the functioning economy (in comparison to most other countries of the Eurozone) that grew by 8.9 percent in 2010. Also in the first half-year, this trend continued.

The major source of criticism is the conflict with Cyprus

The list of aspects that block the negotiations that the Commission has brought to the attention of Ankara for years is much longer: On the one hand, there is the lack of freedom of press and opinion. It is especially alarming that journalists are still persecuted and lawsuits are carried out against them.

The biggest problem however is the unsolved conflict with Cyprus. There was "no progress in the past year towards a normalization of relations", the Commission criticizes. Several requirements are linked to that: Ankara has to finally decide on the extension of the EU Customs Union to Cyprus, the report says. The EU froze eight negotiation chapters with Turkey in 2006 because of that.

Additionally, the oil and gas conflict strongly burdens the relations of the two countries. Nikosia started investigations on the coasts of Cyprus only a few weeks ago, which led to Ankara sending out a research ship as well. The Turkish government deprives Cyprus of its right to drill for oil off its coast until the island is not divided anymore.

Turkey has been an accession candidate since 1999, in 2005, the negotiations for entry started and until now, only 13 of 33 negotiation chapters have been opened.

Source: “Die Presse”, Print version from 13th of October, 2011

Questions on the article:

Serbia

a) Which status does Serbia currently have in the framework of the EU enlargement and what does it mean?

_____
_____

b) Which condition does the European Commission define within the framework of the enlargement report as precondition of Serbia’s entry to the EU?

_____
_____

Montenegro:

a) In which stage is Montenegro currently regarding its entry to the European Union?

_____
_____

b) Despite the huge reform progress that the report points to, the European Commission also criticizes the country. What improvement potential does the report especially point to?

_____
_____

Turkey:

a) Since when has Turkey been an accession candidate resp. since when are there accession negotiations?

_____
_____

b) Please name three issues that Turkey has to solve before its entry into the EU that are mentioned in the article.

_____
_____
_____
_____

3. The precondition for the participation in the euro currency area is meeting the four convergence criteria that shall ensure that the economic growth within the Economic and Monetary Union is balanced.

What are the **four criteria** called? Complete the following overview.

	The _____ must not be more than 1.5 percentage points above the average inflation rate of those three EU member states that have the highest price stability.
	The _____ has to be lower than 3% of the GDP, except there is a one-off and temporary exceedance of this reference value.
	The _____ has to be lower than 60%, unless it is significantly regressive, so that the reference value will be achieved in the future.
	The potential member has to have participated in the exchange-rate mechanism (ERM) for two consecutive years without severe tensions within a range of +/- 15% to the euro.
	The _____ of the member state has to be lower than 2 percentage points above the nominal interest rate of those three EU member states that have the lowest inflation.

4. Please assess whether the following statements on the Economic and Monetary Union are correct or incorrect and correct the statement if necessary.

Statement	**Correct**	**Incorrect**	**Correction**
The European integration traces back to a German-French initiative – the establishment of a European Coal and Steel Community in 1951.			
The ECSC was originally comprised of five member states, namely Germany, France and the three Benelux states.			
The euro was introduced in the form of notes and coins at the beginning of the third stage to the Economic and Monetary Union on the 1st of January, 1999.			
Besides meeting the four convergence criteria, also the independency of the central bank of the potential euro country is checked.			

5. Please complete the following text. The following terms are available:

Competition – monetary policy – monetary union – customs barriers – fiscal policy – exchange rates – economic union – currency

An _____ gears to a single market. In order to achieve this, _____ have to be eliminated, legal and administrative regulations have to be adjusted and a free and fair _____ has to be secured. Another condition for the achievement of a successful economic union is close politico-economic cooperation, especially in terms of _____.

A _____ is a union of several sovereign countries to a single currency area with the same _____. It requires absolutely fixed _____ and the complete liberalization of transnational capital transactions. There is a single _____ within a monetary union.

The history of the Economic and Monetary Union

Suggested solutions:

1.

1971	**Werner Plan** First steps towards a common economic and monetary union are developed by a working committee led by the head of government Pierre Werner.
1993	**Maastricht Treaty** The foundation treaty of the European Union with a three-pillar-model takes effect. The Economic and Monetary Union (EMU) as the first pillar is complemented by a Common Foreign and Security Policy (CFSP) and the willingness to police and judicial cooperation in criminal cases.
1995	**Austria enters the EU** … together with Finland and Sweden.
2003	**Treaty of Nice** It laid the foundations for the first south-eastern enlargement with Estonia, Lithuania, Latvia, Poland, Slovakia, Slovenia, the Czech Republic, Hungary, Malta and Cyprus.
2009	**Treaty of Lisbon** Here, profound reforms, such as the disorganization of the three-pillar model, were included and the responsibilities of the European Parliament and the European Council were partly newly defined. In order to strengthen the European Union, the function of the President of the European Council was created and new functions of the High Representative for Foreign Affairs and Security Policy of the EU were decided on.

2.

Serbia

a) The European Union officially suggested Serbia as accession candidate. With the status of an EU accession candidate, negotiations in terms of contents can be started.

b) Serbia has to “normalize” its relations to Kosovo, only then the candidate status is finally awarded to the country.

Montenegro

a) Montenegro has been an accession candidate since December 2010 and now enters the stage of negotiations in terms of contents that will not be completed by 2014.

b) Montenegro has been an accession candidate since December 2010 and now enters the stage of negotiations in terms of contents that will not be completed by 2014.

Turkey

a) Turkey has been an accession candidate since 1999 and the negotiations were already started in 2005. By now, only 13 of 33 negotiations chapters were opened.

b) Besides a lack of freedom of press and opinion, the major point of criticism of the European Commission is the conflict with Cyprus. Concerning this, the EU requires Ankara to extend the EU Customs Union to Cyprus and to settle the oil and gas disputes.

3.

Price stability	The inflation rate must not be more than 1.5 percentage points above the average inflation rate of those three EU member states that have the highest price stability.
National budget	The annual new indebtedness has to be lower than 3% of the GDP, except there is a one-off and temporary exceedance of this reference value.
	The government debt-to-GDP ratio has to be lower than 60%, unless it is significantly regressive, so that the reference value will be achieved in the future.
Exchange rate	The potential member has to have participated in the exchange-rate mechanism (ERM) for two consecutive years without severe tensions within a range of +/- 15% to the euro.
Long-term interest	The long-term nominal interest rate of the member state has to be lower than 2 percentage points above the nominal interest rate of those three EU member states that have the lowest inflation.

4.

Statement	Correct	Incorrect	Correction
The European integration traces back to a German-French initiative – the establishment of a European Coal and Steel Community in 1951.	X		
The ECSC was originally comprised of five member states, namely Germany, France and the three Benelux states.		X	The ECSC was originally comprised of six member states, i.e. also Italy counts among the founding members of the European Union that eventually emerged from this merger.
The euro was introduced in the form of notes and coins at the beginning of the third stage to the Economic and Monetary Union on the 1st of January, 1999.		X	The euro has been used in the form of bank money within the framework of cashless transactions from 1st January, 1999. The introduction of the euro in the form of notes and coins only took place on 1st January, 2002.
Besides meeting the four convergence criteria, also the independency of the central bank of the potential euro country is checked.	X		

5.

An **economic union** gears to a single market. In order to achieve this, **customs barriers** have to be eliminated, legal and administrative regulations have to be adjusted and a free and fair **competition** has to be secured. Another condition for the achievement of a successful economic union is close politico-economic cooperation, especially in terms of **fiscal policy**.

A **monetary union** is a union of several sovereign countries to a single currency area with the same **currency**. It requires absolutely fixed **exchange rates** and the complete liberalization of transnational capital transactions. There is a single **monetary policy** within a monetary union.

Financial Education

Subject: History/Social Studies/Political Education – Retirement provision/Pension/Insurance

"Financial Education"

TEACHING MATERIALS FOR:

HISTORY (AHS – Higher general education school)

GENERAL INFORMATION

SUBJECT & GRADE	**History/Social Studies/Political Education:** 12th grade (8th grade/senior classes)
TEACHING UNITS	3 units of 50 minutes each
TOPIC	**Retirement provision/Pension/Insurance**
CONNECTIONS TO THE CURRICULUM	The political and legal system of Austria and the European Union as well as political systems by international comparison
TARGET COMPETENCES[1]	**- The students shall…** Be able to differentiate between funding and contribution-based pension systems (L2) Be able to reflect on the demographic development and its impact on the pension system (L3) Be able to describe retirement provision options (L2) Be able to explain the 3-pillar-model of retirement provision (L2)
INTERDISCIPLINARY COMPETENCES	Analytical competence; communication skills (Roleplaying)
CONNECTIONS TO OTHER SUBJECTS	**Geography & Economics:** Protection against risks, Wage/salary
PREVIOUS CONTENTS IN THE SAME GRADE	**none**

[1] Indication of the level of competence (L) from 1 to 3, where 1=recalling, 2=understanding, 3=problem solving