

Learning Objectives

Chapter 38

In this chapter you will

Cover an outline of European monetary union and the single market
Consider the benefits and costs that might be expected to arise from a country joining a currency union.
Consider the characteristics of an optimum currency area.
Learn about the debate concerning whether the euro area is an optimum currency area
Consider fiscal policy in common currency areas

You should be able to

Explain the key features of a currency area and a single market
Explain the characteristics a group of countries should have if they are to be considered an optimum currency area
Explain and illustrate with diagrams the macroeconomic effects of asymmetric shocks in a common currency area, wherein exchange rate adjustment is not possible
Explain and illustrate with diagrams how fiscal policy could be used for macroeconomic stabilization in the absence of exchange rate adjustment and independent monetary policy