

Learning Objectives

Chapter 38

In this chapter you will

- Consider the characteristics of an optimum currency area.
- Consider the benefits and costs that might be expected to arise from a country joining a currency union.
- Learn about the debate concerning whether the euro area is an optimum currency area.

You should be able to

- 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