



RUPRECHT-KARLS-UNIVERSITÄT HEIDELBERG

FACULTY OF ECONOMICS AND SOCIAL SCIENCES
ALFRED-WEBER-INSTITUTE FOR ECONOMICS

PROF. DR. ZENO ENDERS
CHAIR OF MACROECONOMICS

Seminar (M.Sc.)

MONETARY UNIONS

Description

The aim of this seminar is to analyze motives and necessary conditions to form a monetary union. This includes a discussion of the problems that occurred within the European Monetary Union, their impact on the participating countries and possible answers to existing problems. A particular focus will be put on the Theory of Optimum Currency Areas.

Organizational issues

The seminar will be held as a block seminar on November 29 and 30. The seminar is targeted towards Master's students with an interest in macroeconomics, in particular international economics.

Prerequisite for applying is the successful attendance of the lecture 'Advanced Macroeconomics' of the Master's program. An equivalent rule applies for students from Mannheim. You have to be present at both days. The grade will be a weighted average of

- seminar thesis (60%),
- presentation (30%),
- active participation (10%).

You need to deliver a presentation and a thesis to pass the class. More details will be given in the preparatory meeting on Wednesday, October 16 at 13:30 in room 00.028 in the AWI.

Literature

The seminar is based on the book "Economics of Monetary Union" by Paul De Grauwe. Each student should focus on one book chapter and additional related literature, listed below.

Application deadline

The application form should be completed and put into the mailbox of the Chair of Macroeconomics (red mailboxes on the ground floor of the AWI) or be sent via e-mail to sekretariat.wipol@awi.uni-heidelberg.de until (including) Monday, October 14. You can cancel your participation until (including) October 16. If you cancel at a later time, you will obtain a grade of 5.0.

Seminar language

The seminar language is English.

Seminar thesis

The seminar thesis should have a length of at most 15 pages. This includes a thorough overview of the chosen book chapter and a discussion of the related papers. For further details regarding layout etc., see the relevant document on the chair's webpage at 'Teaching'.

Allocation of topics

Please state in your application which book chapter (with the related papers) you want to work on. The available topics are listed below. The final allocation will take place during the preparatory meeting.

Additional Literature

Chapter 1. The Costs of a Common Currency

1. Frenkel, M. and C. Nickel (2005) "How Symmetric Are the Shocks and the Shock Adjustment Dynamics between the Euro Area and Central and Eastern European Countries?", *Journal of Common Market Studies*, 43, 53-74.
2. Artis, M. and M. Ehrmann (2006) "The exchange rate - A shock-absorber or source of shocks? A study of four open economies", *Journal of International Money and Finance*, 25, 874-893.

Chapter 2. The Theory of Optimum Currency Areas: A Critique

3. Bayoumi, T. and B. Eichengreen (1993) "Shocking Aspects of Monetary European Monetary Unification", in: F. Torres and F. Giavazzi (eds) *Adjustment and Growth in the European Monetary Union*, Cambridge University Press.
4. Von Hagen, J. and M.J.M. Neumann (1994) "Real Exchange Rates Within and Between Areas: How Far Away Is EMU?", *Review of Economics and Statistics*, 76, 236-44.
5. Frankel, J. and A. Rose (1998) "The Endogeneity of the Optimum Currency Area Criteria", *The Economic Journal*, 108, 1009-1025.

Chapter 3. The Benefits of a Common Currency

6. Frankel, J. and A. Rose (2002) "An Estimate of the Effect of Currency Unions on Trade and Growth", *Quarterly Journal of Economics*, 117, 437-466.

7. Glick, R. and A. Rose (2002) “Does a currency union affect trade? The time-series evidence”, *European Economic Review*, 46, 1121-1151.
&
Glick, R. and A. Rose (2016) “Currency unions and trade: A post-EMU reassessment”, *European Economic Review*, 87, 78-91.
8. De Grauwe, P. and F. Mongelli (2005) “Endogeneities of optimum currency areas: What brings Countries sharing a single currency closer together”, ECB Working Paper 468.

Chapter 4. Costs and Benefits Compared

9. Schmitt-Grohé, S. and M. Uribe (2012) “Managing Currency Pegs”, *American Economic Review: Papers & Proceedings*, 102, 192–197.
10. Enders, Z. P. Jung and G. Müller (2013) “Has the Euro changed the business cycle?”, *European Economic Review*, 59, 189-211.
11. Eichengreen, B. (1991) “Is Europe an Optimum Currency Area”, NBER Working Paper 3579.
12. Alesina, A. and R. Barro (2002) “Currency Unions”, *Quarterly Journal of Economics*, 117, 409-436.

Chapter 5. The Fragility of Incomplete Monetary Unions

13. Rose, A. K. and L. Svensson (1994) “European exchange rate credibility before the fall”, *European Economic Review*, 38, 1185-1216.
14. Eichengreen, B. and C. Wyplosz (1993) “The Unstable EMS”, *Brookings Papers on Economic Activity*, 24, 51-144.
15. Rose, A. K. (2007) „Checking Out: Exits from Currency Unions”, CEPR Discussion Paper 6254.
&
Eichengreen, B. (2007) „The Breakup of the Euro Area”, NBER Working Paper 13393.

Chapter 6. How to Complete a Monetary Union?

16. Eggertsson, G., A. Ferrero and A. Raffer (2014) “Can Structural Reforms help Europe?”, *Journal of Monetary Economics*, 61, 2-22.
17. Farhi, E. and I. Werning (2017) “Fiscal Unions“, *American Economic Review*, 107, 3788-3824.

Chapter 7. The Transition to a Monetary Union

18. Engel, C. and A. Rose (2002) „Currency Unions and International Integration”, *Journal of Money, Credit and Banking*, 34, 1067-1089.
19. Beetsma, R. and H. Uhlig (1999) “An Analysis of the Stability and Growth Pact”, *The Economic Journal*, 109, 546-71.

Chapter 8. The European Central Bank

20. Alesina, A. and L. H. Summers (1993) “Central Bank Independence and Macroeconomic Performance: Some Comparative Evidence”, *Journal of Money, Credit and Banking*, 25, 151-162.
21. Giavazzi, F. and M. Pagano (1988) “The Advantage of Tying One’s Hands”, *European Economic Review*, 32, 1055-1082.

Chapter 9. Monetary Policy in the Eurozone

22. Mihov, I. (2001) “Monetary Policy Implementation and Transmission in the European Monetary Union”, *Economic Policy*, 33, 371-406.
23. Benigno, P. and J. Lopez-Salido (2006), “Inflation Persistence and Optimal Monetary Policy in the Euro Area”, *Journal of Money, Credit, and Banking*, 38, 578-614.
24. Dixit, A. and L. Lambertini (2001) “Monetary-fiscal policy interactions and commitment versus discretion in a monetary union”, *European Economic Review*, 45, 977-987.
25. Gali, J. and T. Monacelli (2008) “Optimal monetary and fiscal policy in a currency union”, *Journal of International Economics*, 76, 116-132.

Chapter 10. Fiscal Policies in Monetary Unions

26. Gali, J. and R. Perotti (2003) “Fiscal Policy and Monetary Integration in Europe”, *Economic Policy*, 37, 534-572.
27. Ferrero, A. (2009) “Fiscal and monetary rules for a currency union”, *Journal of International Economics*, 77, 1-10.
28. Leith, C. and S. Wren-Lewis (2006) “Compatibility between monetary and fiscal policy under EMU”, *European Economic Review*, 50, 1529-1556.

Chapter 11. The Euro and Financial Markets

29. Sala-i-Martin, X. and J. Sachs (1992) “Fiscal Federalism and Optimum Currency Areas: Evidence for Europe from the United States”, in M. Canzoneri, V. Grilli and P. Masson (eds) *Establishing a central bank: Issues in Europe and lessons from the United States*, Cambridge University Press.
30. Sørensen, B. and O. Yosha (1998) “International risk sharing and European monetary unification”, *Journal of International Economics*, 45, 211–238.
31. De Grauwe, P. and Y. Ji (2013) “Self-fulfilling crises in the Eurozone: An empirical test”, *Journal of International Money and Finance*, 34, 15-36.
32. Ehrmann, M. and M. Fratzscher (2017) “Euro area government bonds – Fragmentation and contagion during the sovereign debt crisis”, *Journal of International Money and Finance*, 70, 26-44.