

Michael Carlberg

European Monetary Union

Theory, Evidence, and Policy

With 42 Figures
and 64 Tables

Physica-Verlag

A Springer-Verlag Company

Contents

Introduction	1
Brief Survey of the Literature	9
Part One. Simple Models	13
1. Small Country in Large Union	15
1.1. Model	15
1.2. Shocks and Policy Measures	17
2. Small Union as a Whole	23
2.1. Model	23
2.2. Numerical Example	28
Part Two. Small Union	33
Chapter 1. Small Union of Two Countries	35
1. Basic Model	35
2. Fiscal Policy	39
2.1. Identical Countries	39
2.2. Different Money Demand Functions	43
2.3. Different Labour Productivities	44
2.4. Synopsis	45
3. Monetary Policy	47
3.1. Identical Countries	47
3.2. Different Exchange Rate Sensitivities	49
3.3. Different Money Demand Functions	50
3.4. Different Labour Productivities	51
3.5. Synopsis	52
4. Numerical Example	53
5. Some Shocks	55
6. Diagrams	59

7. Policy Coordination.....	63
7.1. Internal Balance.....	63
7.2. Internal and External Balance.....	67
7.3. Model.....	69
7.4. Summary.....	73
8. Wage Shock.....	73
8.1. Model.....	73
8.2. Wage Shock in Country 1.....	76
8.3. Wage Shock and Policy Response.....	78
8.4. Summary.....	80
9. Flexible Wages.....	81
9.1. Model.....	81
9.2. Diagrams.....	84
9.3. Summary.....	87
10. Aggregation.....	87
11. Microstructure of Exports.....	88
12. Summary.....	92

Chapter 2. Small Union of Three Countries.....	97
1. Model.....	97
2. Fiscal Policy.....	97
3. Monetary Policy.....	101
4. Summary.....	102

Chapter 3. Small Union of Ten Countries.....	105
1. Fiscal Policy.....	105
2. Monetary Policy.....	106
3. Summary.....	107

Chapter 4. No Capital Mobility between Union and Rest of the World.....	109
1. Small Union as a Whole.....	109
1.1. Model.....	109
1.2. Fiscal Policy.....	110
1.3. Monetary Policy.....	111

2. Small Union of Two Countries.....	113
2.1. Model.....	113
2.2. Fiscal Policy.....	114
2.3. Monetary Policy.....	116
3. Summary	117

Part Three. Small Union and Associated Countries..... 121

1. Small Union as a Whole.....	123
1.1. Model.....	123
1.2. Monetary Policy.....	127
1.3. Fiscal Policy.....	130
1.4. Diagrams.....	133
1.5. Devaluation of Euro.....	137
2. Small Union of Two Countries.....	143
2.1. Model.....	143
2.2. Fiscal Policy.....	145
3. Summary	147

Part Four. Large Union..... 151

Chapter 1. Large Union and Rest of the World.....	153
1. Model.....	153
2. Fiscal Policy.....	157
3. Monetary Policy.....	160
4. Shocks and Policy Responses	163
5. Summary.....	165

Chapter 2. Small Country in Large Union.....

 169

Chapter 3. Large Union of Two Countries	171
1. Model.....	171
2. Fiscal Policy.....	178
3. Monetary Policy.....	180
4. Summary	182

Chapter 4. No Capital Mobility between Union and Rest of the World	185
1. Model	185
2. Fiscal Policy	186
3. Monetary Policy	188
4. Summary	190
Part Five. Large Union and Associated Countries	193
1. Large Union as a Whole	195
1.1. Model	195
1.2. Monetary Policy	197
1.3. Fiscal Policy	198
2. Large Union of Two Countries	200
2.1. Monetary Policy	200
2.2. Fiscal Policy	201
3. Summary	202
Synopsis	207
Conclusion	215
1. Simple Models	215
2. Small Union	217
3. Small Union and Associated Countries	224
4. Large Union	226
5. Large Union and Associated Countries	231
Result	235
Appendix	239
Symbols	241
References	243