

Marketta Henriksson

ESSAYS ON EURO AREA ENLARGEMENT

HELSINKI SCHOOL OF ECONOMICS

ACTA UNIVERSITATIS OECONOMICAE HELSINGIENSIS

A-266

Contents

1	Introduction	1
1.1	Background	1
1.2	Overview of the essays	3
1.3	Concluding Comments	9
	References	11
2	Fiscal Policy and the Exchange Rate Regime Choice	14
2.1	Introduction	14
2.2	The Fiscal Theory of the Price Level	16
2.3	The Model	22
2.3.1	Monetary union	23
2.3.2	Two currencies	28
2.3.3	Effect of EMU entry announcement	34
2.4	Conclusions	35
	References	39
	Appendix	42
3	Productivity Differentials and the External Balance in ERM II	48
3.1	Introduction	48
3.2	The Model	49
3.2.1	Structure of the Model	50
3.2.2	Equilibrium	58
3.3	Calibration and Simulation	60
3.3.1	Parameters	61
3.3.2	Steady state model	63
3.3.3	Permanent shock	65
3.3.4	Transitory shock	67
3.4	Conclusions	69
	References	72
	Appendix	75
4	Growth and Fiscal Rules in ERM II	78
4.1	Introduction	78
4.2	The Model	80
4.2.1	Structure of the Model	81
4.2.2	Fiscal rules	90
4.3	Calibration and Simulation	92

4.3.1	Parameters	92
4.3.2	Steady state model	93
4.3.3	Permanent shock	95
4.3.4	Transitory shock	97
4.4	Conclusions	101
	References	105
	Appendix	109