

Optimal Currency Areas

Martin Feldstein

Traditional Advantages

- Currency convenience
- Price Comparability
- Cross Border Investment

Transition Gains

- Reduced Inflation
- Reduced Fiscal Deficits

Additional Persistent Gains for Joiners

- Inflation discipline
- Exchange rate discipline
- Lender of Last Resort
- Expertise
- Political Union

Disadvantages of Currency Union

- Single monetary policy and single exchange rate: Effects depend on –
- Industrial similarity
- Labor Mobility
- Fiscal Structure
- Willingness to Sacrifice

The Current Challenge

- Financial crisis
- Declining economic activity
- Not all economies affected equally
- Different preferences about monetary and fiscal policies