Optimal Currency Areas

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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