
Time allowed: 1½ hours

Answer ANY **TWO** questions. All questions carry equal marks

1. Explain briefly how the following phenomena affect the ability of countries to participate in monetary unions: symmetry of output shocks, labor mobility, presence of an effective insurance mechanism to counter asymmetric shocks.
2. Does the EMU in its present form (12 members) constitute an optimum currency area? How will this change with the entry of some of the new member countries of the EU, will it bring the expanded EMU closer to or further away from being an optimum currency area?
3. Once countries adopt the same currency, they are likely to trade more with each other. This can have implications for the symmetry of output shocks between them. Explain the optimistic view (as put forward by the European Commission) and the pessimistic view (held by Krugman). Which view do you think is correct?
4. Why do fixed exchange-rate regimes often suffer from a lack of credibility? Discuss the temptation to devalue under a fixed exchange-rate regime in the context of the Barro-Gordon model.
5. What are the so-called Maastricht criteria for entry into the EMU? Discuss the rationale for adopting them.