

Chapter 1: Questions

1. Explain how wage flexibility allows countries to reduce the cost of a monetary union when an asymmetric demand shock occurs.
2. The mobility of labour was also identified as a possibility to adjust to asymmetric shocks. Identify the similarities and the differences between labour mobility and wage flexibility. Are the implications for the cost of a monetary union the same?
3. Differences in preferences of the national monetary authorities concerning inflation and unemployment can be a source of cost of a monetary union. Do you think these differences in preferences are important today in Europe? What about other parts of the world?
4. Why was the difference in fiscal systems among EU-countries not a major source of cost of the monetary union?
5. Explain why countries with a very centralized wage bargaining system may find it easier to avoid a wage price spiral after an oil shock than countries with less centralized wage bargaining.

Chapter 2: Questions

1. Explain why the optimists argue that economic integration leads to less asymmetric shocks.
2. Explain why the pessimists argue that economic integration leads to more asymmetric shocks.
3. Why is the existence of nation-states in a monetary union a potential source of asymmetric shocks?
4. Under what conditions is a centralization of wage bargaining not a good idea in a monetary union?
5. Why are inflation differentials going to continue to exist in a monetary union? Is this a problem that will plague a monetary union for the indefinite future?
6. Explain why the low inflation countries in Europe were more reluctant than the high inflation countries to join the monetary union. What was the effect of this asymmetry in preferences?
7. Explain why the costs of a monetary union are typically smaller for relatively open economies than for relatively closed ones.