

Chapter 9: Questions

1. Why is it that in a monetary union country may have incentives to create excessive government deficits and debts?
2. What is the implication for the dynamics of debt accumulation of a decline in the nominal growth rate of GDP? Assume that the nominal interest rate remains constant.
3. Describe the main features of the Stability and Growth Pact.
4. Explain why in efficient capital markets there is no spillover of high debts and deficits created in one member country of the monetary union to other member countries.
5. Under what conditions will these spillover effects reappear even if capital markets work efficiently?
6. Explain why in a monetary union the default risk (credit risk) of government debt may increase. Is there evidence that this has happened in Euroland?