
Time allowed: 1½ hours

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

1. 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? Explain.
2. Would the entry of the UK into the EMU be optimal for the UK? And for the current members of the EMU? For both parts of the question, explain why.
3. Explain the Keynesian and monetarist views on the costs and benefits of participation in a monetary union. Which view was more influential in the run up to the formation of the EMU?
4. Use the Barro-Gordon model to explain how a high-inflation country can 'import' low inflation by entering into a monetary union with a low-inflation country.
5. What are the rules imposed by the Stability and Growth Pact on member countries of the EMU? Why were the rules adopted?