



Leibniz-Institut für
Wirtschaftsforschung Halle

IWH Research Seminar in Economics

Montag, 19. Juni 2017, 14:15–15:45 Uhr, Konferenzsaal im Erdgeschoss



Uncertainty Shocks in Currency Unions

Professor Benjamin Born, Rheinische Friedrich-Wilhelms-Universität Bonn

Uncertainty shocks cause economic activity to contract and more so, if monetary policy is constrained by an effective lower bound on interest rates. In this paper, we investigate whether individual member countries of a currency union are also particularly prone to suffer from the adverse effects of heightened uncertainty because they lack monetary independence. First, we estimate a Bayesian VAR on quarterly time series for Spain. We find that country-specific uncertainty shocks impact economic activity adversely. Second, we calibrate a DSGE model of a small open economy and show that it is able to account for the evidence. Finally, we show that currency-union membership strongly reduces the effects of uncertainty shocks because it anchors long-run expectations of the price level and thus alleviates precautionary price setting in the face of increased uncertainty.

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