

Contents

<i>Preface</i>	vii
<i>About the Authors</i>	xv
1. History of the EU Monetary Union	1
1.1. Introduction	1
1.2. Various Experiments Toward Achieving the Monetary Union	1
1.2.1. Werner Report	1
1.2.2. Snake	5
1.2.3. European Monetary System (EMS)	7
1.3. Contents of the Monetary Union	11
1.3.1. Delors Report	11
1.3.2. Maastricht Treaty	13
1.3.3. EMI Report: The Changeover to the Single Currency	15
1.3.4. Amsterdam Treaty	16
1.4. EMI Roles	19
1.4.1. Establishment and Organization	19
1.4.2. Mission	19
1.4.3. Authority	23
1.5. Decision Process on State Participation in the Monetary Union	24
1.5.1. EMU Participation Criteria	24
1.5.2. Participation Criteria Fulfillment Conditions	25
1.5.3. EMU Member State Decision Process	28
1.6. General Overview	29

2. Empirical Analysis of the Money Demand Function in the Euro Area	31
2.1. Introduction	31
2.2. Model	34
2.3. Aggregate Data Analysis	35
2.3.1. Data	35
2.3.2. Demand for M1	36
2.3.3. Demand for M2	40
2.3.4. Demand for M3	45
2.4. Panel Data Analysis	48
2.4.1. Data	48
2.4.2. Demand for M1	49
2.4.3. Demand for M2	52
2.4.4. Demand for M3	54
2.5. Some Concluding Remarks	57
3. Monetary Policy Rule of the European Central Bank	59
3.1. Introduction	59
3.2. The Taylor Rule	61
3.3. Data	63
3.4. Empirical Results	65
3.4.1. Simple Taylor Rule	65
3.4.2. The Role of Long-term Interest Rate	67
3.5. Some Concluding Remarks	69
4. Empirical Analysis of the Term Structure of Interest Rates in the Presence of Cross-Section Dependence	71
4.1. Introduction	71
4.2. Model	73
4.3. Data	75
4.4. Empirical Results	76
4.4.1. Empirical Results with Cross-Section Independence	76
4.4.2. Empirical Results with Cross-Section Dependence	78
4.5. Some Concluding Remarks	84

5. Are Budget Deficits Sustainable in the Euro Area?	87
5.1. Introduction	87
5.2. Model	92
5.3. Data	93
5.4. Empirical Results	94
5.5. Some Concluding Remarks	96
6. Yield Spread and Output Growth in the Euro Area	99
6.1. Introduction	99
6.2. Models	102
6.3. Aggregate Data Analysis	103
6.3.1. Data	103
6.3.2. Empirical Results	104
6.4. Panel Data Analysis	107
6.4.1. Data	107
6.4.2. Empirical Results	108
6.5. Some Concluding Remarks	112
7. International Capital Flows and the Feldstein–Horioka Paradox	115
7.1. Introduction	115
7.2. Data	117
7.3. Empirical Model	118
7.4. Empirical Results	119
7.5. Sub-Sample Analysis	122
7.6. Some Concluding Remarks	123
8. Nominal and Real Exchange Rate Fluctuations: Euro, US Dollar, and Japanese Yen	125
8.1. Introduction	125
8.2. Data	128
8.3. Bivariate System	130
8.3.1. Empirical Techniques	130
8.3.2. Empirical Results	132

8.4.	Trivariate System	134
8.4.1.	Empirical Techniques	134
8.4.2.	Empirical Results	137
8.5.	Some Concluding Remarks	141
9.	Euro Area Enlargement	143
9.1.	Introduction	143
9.2.	Existing EU Member State Group	145
9.2.1.	Greece	145
9.2.2.	Denmark	147
9.2.3.	The UK	151
9.2.4.	Sweden	157
9.3.	Accession Countries	159
9.4.	EMU Participants	160
9.4.1.	Slovenia	160
9.4.2.	Cyprus	162
9.4.3.	Malta	164
9.4.4.	Slovakia	165
9.5.	ERM II Participants	167
9.6.	Countries that are not ERM II Participants	173
9.7.	Outlook for the Future	180
	Appendix A: Panel FMOLS and Panel DOLS	185
	<i>Bibliography</i>	187
	<i>Index</i>	197