A Currency of One’s Own?
An Empirical Investigation on Dollarization and Independent Currency Unions

Discussion by
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- Effect of a common currency on
  - GDP/capita growth
  - inflation
  - growth volatility
- Common currency
  - Dollarization (SDs)
  - Independent currency union (ICUs)
- Data 1970–1998
  - 20 SDs
  - 34 ICUs

Treatment model

\[ y_{jt} = x'_{jt} \beta + \gamma \delta_j + \mu_{jt} \]

\[ \delta_{jt} = \begin{cases} 1 & (\delta^*_{jt} > 0) \\ 0 & (\delta^*_{jt} \leq 0) \end{cases} \]

\[ \delta^*_{jt} = w_{jt} \alpha + \varepsilon_{jt} \]

Estimation
- 2-step
- ML

Results
- GDP/capita growth higher w/ common currency (for ICUs)
- Inflation lower w/ common currency
- Growth volatility (def?) higher w/ common currency (more so for ICUs)

Comments
- Reduced-form results: Mechanisms?
- What monetary policy?
  - SDs
  - ICUs
  - Flexible exchange rates ambiguous
- Advantages of flexible exchange rates
  - TOT and real exchange rate adjustment easier
    - Only if sticky domestic prices. Data?
  - Independent monetary policy
    - Only if good monetary policy. Data?
    - Good monetary policy recent phenomenon (since 90–95)
- Conclusions for enlargement of EMU?
  - Many SDs and ICUs in data quite different from potential new EMU members
  - Alternatives to EMU entry?
  - Other aspects than macroeconomic performance
    - Politics
    - Transfers