

First Draft: July 24, 1990

Comments Welcome

On the Transition to a Currency Union^{*}

by

Roberto CHANG

Department of Economics, New York University, NY 10003

Abstract

This paper studies a simple model of the transition from a world with multiple national currencies to a world with a single currency. In the context of the model, I discuss issues related to the choice of conversion rates between the old and the new currencies. The main findings are: (i) There is a large set of efficient conversion rates and therefore choosing among them is a matter of wealth redistribution; (ii) Market forces cannot by themselves determine conversion rates; (iii) With perfect capital mobility, conversion rates have real effects if and only if the currency union is anticipated.

Send Correspondence to:

Professor Roberto Chang
Department of Economics
New York University
269 Mercer Street - 7th Floor
New York, NY 10003
(212) 998 8958

* This paper grew out of conversations with Jess Benhabib, Matt Canzoneri, Guillermo Calvo, and Richard Marston. Of course, I take exclusive responsibility for the errors and omissions. The C.V. Starr Center for Applied Economics provided financial support for this project.