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Comments Welcome

ON THE TRANSITION TO A MONETARY UNION *

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Abstract

This paper studies a cash-in-advance model of the transition to a monetary union. It illustrates that the real effects of a monetary union depend crucially on the extent to which the union is anticipated, on the existence or lack of markets for financial assets, and on the initial distribution of assets and currencies across countries. I also discuss issues related to the actual implementation of a monetary union and some policy coordination questions. In particular, I argue that the need for policy convergence in the transition to a monetary union in Europe has been exaggerated.

Running Title: On the Transition to a Monetary Union

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