

Exit Expectations, Time Inconsistency, and the Optimal Design of a Currency Union

Yuta Saito (Kobe International University)

AEA Poster Session, 2022 AEA/ASSA Annual Meeting
January 4-6, 2022. Boston (Online)

Model

Scenario:

- Advanced countries belong to a currency union (CU)
- They decide the number of developing countries in the CU.

Motive for belonging to the CU:

- Having a domestic central bank yields inflation bias.
- Joining the CU enhances the credibility of monetary policy.

Policymaking in the CU: Majority voting

Originality of the paper: An exogenous rise of expectations of advanced countries' exits from the CU.

Finding

Exit expectations ↑

- Optimal number of developing countries ↑
- Members under heterogeneous economic conditions ↑
(≠ Mundell's criterion of the optimal currency area)