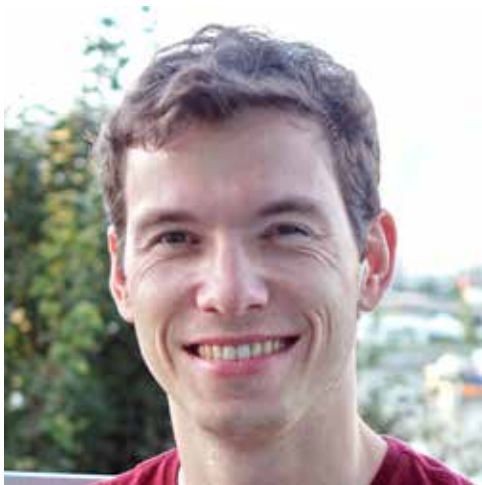




European Union Centre of Excellence Lecture Series

Optimal Monetary Policy, Currency Unions, and the Eurozone Divergence



**Dr. Lucas Herrenbrueck,
Simon Fraser University**

**Friday January 15, 2016
3:00pm - 4:30pm
BEC 363**

Co-hosted with the Economics Department Seminar Series
For more information contact eusprog@uvic.ca

What is the optimal inflation rate in an open economy, and when are currency unions a good idea? Herrenbrueck investigates these questions using a monetary open economy model where firms have market power because of search frictions. Consumers respond to inflation by increasing their search effort, and as a result, inflation has real and non-monotonic effects. The optimal inflation rate depends on the fundamentals of the economy, such as the disutility of search or the cost of firm entry, and on the inflation rates of trading partners. When countries coordinate their monetary policies, inflation will be lower and welfare will be higher than in non-cooperative equilibrium. However, coordinating policy is not the same as conducting the same policy, and the welfare effects from joining a currency union are asymmetric. Preliminary analysis suggests that the model can account for some features of the macroeconomic divergence within the Eurozone in the 1990s and 2000s.



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