

Reconnecting The Peripheral Wagons to the Euro Area Core Locomotive

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Abstract : This paper investigates drivers of shock synchronization using quarterly data for 27 European countries over the period 1999-2013 and taking into account the difference between core ('the euro area core locomotive') and peripheral euro area and transition countries ('the peripheral wagons'). Results from panel error-correction models suggest that core of the euro area has not been strong magnetizer of the shock convergence of periphery and transition countries since the euro inception as a result of the offsetting effects of the various factors that affected the shock convergence process. These findings challenge the endogeneity hypothesis in the optimum currency area framework and rather support the specialisation paradigm which is concerning evidence for the future stability of the euro area.

Keywords : dynamic panel models, shock synchronisation, trade, optimum currency area

Conference Title : ICEE 2015 : International Conference on Economics and Econometrics

Conference Location : Paris, France

Conference Dates : November 19-20, 2015