



You are cordially invited to

UCLouvain Economics Seminar

On Thursday December 6, 2018, from 12:45 to 14:00
Doyen 22, Place des Doyens, 1

Michał Kobielski
(KU Leuven)

Will give a presentation on

Unstable Monetary Unions – The Role of Expectations and Past Experience

Abstract: This paper investigates the empirical patterns of pre-crisis variables in the Eurozone countries to highlight that pre-euro inflation experiences are a good and so far neglected candidate for a predictor of the (later) imbalances within the Eurozone. I present a theoretical model that is able to capture the importance of past experiences for the stability of a country joining a monetary union. I introduce informational frictions in the form of learning into a standard model of a monetary union. I then study how those frictions interact with different economic histories. The model reproduces the patterns observed in the Eurozone, where countries with higher inflation experiences prior to joining the union accumulate more foreign debt and face a higher risk of economic instability. The paper highlights inflation expectations as a new candidate for the deep causes of the imbalances within the Eurozone.

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