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IMF Working Paper

Measuring the Trade Effects of EMU

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Abstract

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This paper examines the impact of European Economic and Monetary Union (EMU) on trade within the euro area. Using panel data for 22 industrial countries, the analysis estimates the effect of the euro's arrival on area-wide trade compared to bilateral trade flows between other industrial countries. Controlling for other influences according to the "gravity" model of trade, the panel analysis employs cointegration techniques to obtain reliable point estimates of EMU trade effects. Cross-country differences with respect to EMU trade gains and underlying factors accounting for these differences are also further explored.

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