



WP/06/31

IMF Working Paper

Stylized Facts on Bilateral Trade and Currency Unions: Implications for Africa

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IMF Working Paper

African Department

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January 2006

Abstract

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This paper explores and quantifies several aspects of the performance of currency unions using an augmented version of the gravity model and focusing on two samples, the world and Africa. Our empirical findings suggest that, in principle, membership in a currency union should benefit Africa as much as it does the rest of the world. In addition, we find evidence from both samples that the effect of currency unions on trade is large, almost a doubling; currency unions are associated with trade creation, increase price co-movements among members, and make trade more stable; and longer duration of currency union membership brings about more benefits, although with some diminishing returns.

JEL Classification Numbers: F14, F15, F33

Keywords: Gravity model, trade, Currency Union

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¹ We thank, without implicating, Xavier Debrun, Anne-Marie Gulde-Wolf, Cathy Pattillo, Andrew Rose, Sylvana Tenreyro, and Mahvash Qureshi for valuable comments and suggestions. All remaining errors are our responsibility. Michal Hulej is currently a doctoral candidate at Warsaw University and was an IMF summer intern at the time the research was conducted.

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