



Living with a Single Monetary Policy



But what is...?

Monetary Policy is the domain of central banks like the ECB and the US Federal Reserve. By setting interest rates, central banks can influence borrowing and saving decisions by consumers and firms. This is a powerful economic policy tool.

Inflation is a general rise in the prices of goods and services in an economy. Deflation occurs when there is a general fall in prices.

Fiscal Policy is the domain of national governments in the euro area. Fiscal policy refers to government spending and taxation.

ECB The European Central Bank is responsible for setting monetary policy for the euro area.

Questions? Use the Euro Challenge Forum!

Countries inside the euro area enjoy numerous benefits. In return, they give up the right to set their own monetary policy. Also, since they no longer have their own currencies they cannot devalue against other euro area countries to boost their exports (or revalue their currencies to rein in inflation). The more divergent a country is from its euro area partners, the harder it is to live within these constraints.

- ① What is meant by the saying “one size fits all” with respect to the **monetary policy** in the euro area?
- ② What policy tools does a country give up when it joins a monetary union? What benefits do they gain in return?
- ③ Why do economists sometimes recommend that a country devalue its currency? What does this do to **exports**? What is the impact on **inflation**? Are there other things that euro area countries can do to boost exports?
- ④ What are the consequences of a euro area member country having higher **inflation** or slower **GDP growth** than the euro area **average**?
- ⑤ What is the mandate of the **ECB**? How does it compare with the Federal Reserve’s mandate in the US?
- ⑥ How has your chosen country performed in terms of **unemployment**, **inflation**, and **growth** compared to the euro area average since it adopted the euro?
- ⑦ What problems have arisen for your chosen country as a result of it having to live under the single **monetary policy** set by the **ECB**?
- ⑧ What **policy tools** has it used so far, or could/should it use in the future, to address these problems?
- ⑨ Do you think it is important for euro area member countries (and your country more specifically) to **converge** to a similar **economic performance** as the euro area average?

