

Re: "A Model of an Optimum Currency Area"

For this paper the author formally derives some of the costs and benefits of two countries forming a common currency area. The author models various costs and benefits simultaneously rather than individually as has previously been done in much of the literature on macroeconomic analyses of common currency areas. Many of the results the author finds are consistent with the prior literature of this subject. The novel finding the author reports is that the net effect of openness is ambiguous. Another innovation of the author seems to be to formally model benefits.

I will first discuss a few major concerns or suggestions I have with or for the paper. After that I will mention a few minor concerns.

My first major suggestion is the presentation of the results. I think this paper could greatly benefit from the author including a table or tables of the major results. Although the current version of a paper has a pretty concise summary of the results in the concluding section, a table along with sections 3 and 4 would allow the reader to have something to refer back to while reading through the paper.

A second concern is that the author begins section 1 on page 2 by claiming, "A currency area adopts an irrevocably fixed exchange rate regime or a single currency within its area and maintains a flexible exchange rate with the rest of the world." I think two of the three claims in that sentence are misleading or wrong and it is such an important point in the paper it may become a major stumbling block for readers. Taking the third claim in the paper first, there is nothing to say a common currency area can not adopt fixed exchange rates with other areas. In fact any current nation state that has its own currency and also has fixed exchange rates with anyone else in the world is a counter example for this claim. The claim that a common currency area is the same thing as a fixed exchange rate regime is also incorrect. As Malchup (1977) points out, countries who fixed exchange rates have not formed a common currency area unless the rate is fixed at a rate of 1 to 1. Neither of these claims need to be made at least at this point for the paper. In making them the author is getting into arguments he need not concern himself with. Also the author seems to recognize these points on page 10, the sentence prior to the start of section 2.1.

A third concern I have is that the author ignores the literature on the microeconomic foundations of a common currency area. This literature starting with Swofford (2000) is not directly related to the current paper as the author takes a macroeconomic approach to analyzing the costs and benefits of a common currency area, but still if he is going to have a literature review in this paper, the author should note the microeconomic foundations in the literature review.

A fourth concern is that the title of the paper seems misleading to potential readers. The title of the paper suggests the author presents "A Model of a Common Currency Area," when in fact the paper is a more complete analysis of costs and benefits of a common currency area. I think the author of the current paper would get a better reaction from

readers if the title were changed to more accurately inform the read as to what is in the paper.

A fifth suggestion is that if as the author says on page 2 the prior literature has focused more on costs and a contribution of this paper is a focus on modeling benefits along with costs, then that should be mentioned along with the openness results in the abstract, introduction and conclusion of the paper.

Some of my minor quibbles are:

1. I believe the abbreviation CFA appears to be used at least the first time in the paper without being defined. Now maybe everyone should recognize CFA ala dollar or euro, but I think defining it might serve some readers interest.
2. The author begins section 1 on page 2 by claiming, “A currency area adopts an irrevocably fixed exchange rate regime and
3. There are various typos like on page 23, 7th line from the top the first word “raise” should be rise. The author also should try to make the paper as concise as possible. For example the various extension suggested in the concluding section belong in a footnote at most.