Reply to the referee

First of all we wish to thank you for your very useful comments.

I. (1, 3, 5, 6, 14, 15) As for the comparison of GMM SYS estimates with standard fixed or random effects estimates, we agree that it could be a good idea. We can include nation wide value added to take into account spillover effects and robustness checks for the estimates. We do not see any difficulties either in introducing exchange rate in level together with the exchange rate volatility measure. To report all the estimates results at the end of the paper it is not a problem.

II (2 first point, 8). You are right: we are presenting short run estimates of the euro impact on trade, coming from a dynamic model, and they are not strictly comparable with the estimates coming from static models; we will compute the long run effect, implied by our dynamic estimates, and relative probability levels.

III (2 second point) As for the difficulties in interpreting the results, as we said to Marques Belke and Spies, differently from other papers, we put efforts in organizing the broad mass of empirical results following an à la Pavitt classification. Actually, as reported in the conclusions, we pointed out some interesting results. Of course it is very difficult to find out common features for all the country/sector but we believe that this attempt is a good starting point for further microconometric analyses.

IV As for the points 4 and 7, we totally agree that the suggestions are, from a general point of view, correct and appealing but it is very difficult (impossible?) for the moment to translate in practise these suggestions: i) the only EU dummy variable that can be sector specific is the EU scoreboard (on internal market implementation), available only starting from 1997 (our sample is 1988-2004); ii) as far as we know, currently, there are not databases on degree of adoption of EU directives at disaggregated sectoral level for manufacturing.

V. As for the point 12 and 13. In the framework of the “old EU countries”, we intended to study which ones benefited (in terms of exports) from the single currency introduction and which ones were damaged (winners or losers). For this reason we organised our pool of countries in two different groups: 13 EU exporting countries and 23 importing countries (13 EU+10 OECD countries). Exporting countries are only EU members: Eurozone countries plus the three EU countries that are not in the EMU (UK, Sweden and Denmark). By this way, we can calculate the euro effect on intra-trade only with respect these latter, being the reference countries we are interested in. To be precise, we calculate how much trade flows among Eurozone countries are different from A) average flows between Denmark, Sweden and UK B) trade between these three countries and Eurozone countries C) trade between Eurozone countries and all the importing countries in the sample; D) trade between Eurozone countries.

VI. As for the approximation of multilateral trade resistance index (11), we are aware of the possible bias related to the omission of time-varying component. One possibility, next to the introduction of the discussion of the possible bias, is to adopt (as Marques and Spies (2006) and Melitz (2005)) a broad interpretation of the multilateral trade resistance terms and assume that the unobservable part of the multilateral trade index (\text{ijij}) to be a loglinear function of a set of time varying observable variables.