Reply to Alena Kimakova

Thank you for comments and very useful suggestions

I (1 point) In this paper we use bilateral exports in volume. The original data are in value (dollar terms), therefore we deflated nominal bilateral export by value added implicit deflators taken from OECD STAN BTD This is a more accurate measure than US CPI commonly used in empirical literature.

II (2 point). You are right, as we already said to the first referee, 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 (3 point). We are only interested in this aspect of integration process. We agree that we should stress clearly this point when we introduce the aim of the paper.

III (4 and 5 points) We agree that to extend the analysis to the service sector would be of great interest. Unfortunately at the moment, as far as we know, there are not bilateral data set on service sector in EU countries. We will introduce in the paper a warning on the possible limitations of the analysis due to the exclusion of the service sector. We can also suggest that the heterogeneous empirical results could be partly due, as you underlined, to differences in labor market institutions. However, the theoretical framework of the paper (Melitz 2003 and Baldwin 2006) focuses on the increase in intra-area trade volume due to the reduction of fixed costs of exporting. Into this framework, differences in labor market institutions play a minor role.