

***Does a Currency Union affect Trade?  
The Time Series Evidence***  
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Comments Welcome

**Abstract**

Does leaving a currency union reduce international trade? We answer this question using a large annual panel data set covering 217 countries from 1948 through 1997. During this sample a large number of countries left currency unions; they experienced economically and statistically significant declines in bilateral trade, after accounting for other factors. Assuming symmetry, we estimate that a pair of countries that starts to use a common currency experiences a near doubling in bilateral trade.

**Keywords:** monetary, gravity, empirical, international, bilateral, country, common, fixed, random, effects, within.

**JEL Classification Numbers:** F15, F33

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## 1: Introduction

In this short paper we ask the question “What is the effect of currency union<sup>1</sup> membership on international trade?” Since an increase in trade prompted by currency union would be an unexpected benefit of European Monetary Union (EM) or dollarization, this is an interesting question to both policy-makers and academics.

Rose (2000) estimated this effect using an essentially cross-sectional approach. He used data for a large number of countries between 1970 and 1990 and found that bilateral trade was higher for a pair of countries that used the same currency than for a pair of countries with their own sovereign monies. More precisely, the coefficient (denoted  $\gamma$ ) on a currency union (CU) dummy in an empirical model of bilateral trade was found to be positive and significant in both economic and statistical terms. Its value rarely fell below 1.2, implying an effect of currency union on trade of around ( $e^{1.2} \approx$ ) 300%. This was true even after controlling for a number of other factors, which might affect trade through the “gravity” model. The latter states that trade between a pair of countries is proportional to their combined incomes, and inversely proportional to the distance between them.

There are a number of potential issues with the cross-sectional approach. Most importantly, the policy question of interest is the (time series) question “What is the trade effect of a country joining (or leaving) a currency union?” not the cross-sectional question “How much more do countries within currency unions trade than non-members?” Other possible problems are econometric; for instance, pair-specific “fixed effects” may obscure the econometric estimates.

In this paper, we estimate the effect of currency unions on trade exploiting time series (as well as cross-sectional) variation. We use a data set that covers a large number of countries for fifty post-war years. During this sample, a large number of currency unions dissolved, allowing us to use both time series and cross-sectional variation on currency union incidence. In particular, we use the fact that over one hundred country-pairs dissolved common currency linkages during the sample. By comparing their trade before and after this regime change (holding other effects constant), we can estimate the effect of currency union membership on trade. Our panel approach, which exploits variation for a large number of countries, can be contrasted with the case-study methodology employed by Thom and Walsh (2000). Thom and Walsh focus on the dissolution of the currency union between Ireland and the UK in 1979, and

interpret their results as showing few effects on Irish-British trade. The question we pose in this paper is: can the conclusions of Thom and Walsh be generalized beyond the Irish-British case?

Reassuringly, we find that our results are basically consistent with those of Rose (2000). We find an economically and statistically significant effect of currency unions on trade using a number of different panel estimation techniques. Our estimate is that bilateral trade approximately doubles/halves as a pair of countries forms/dissolves a currency union, *ceteris paribus*.

In section 2, we describe the data set and methodology that we use. Section 3 is the heart of the paper, and presents estimation results of the effect of currency union on trade. After some sensitivity analysis, the paper concludes with a brief summary.

## 2: Methodology and Data

### Gravity Methodology

We are interested in estimating the effect of currency unions on international trade. Towards that end, we estimate a conventional gravity model of international trade.<sup>2</sup> We augment the model with a number of extra controls:

$$\begin{aligned} \ln(X_{ijt}) = & \beta_0 + \beta_1 \ln(Y_i Y_j)_t + \beta_2 \ln(Y_i Y_j / \text{Pop}_i \text{Pop}_j)_t + \beta_3 \ln D_{ij} + \beta_4 \text{Lang}_{ij} + \beta_5 \text{Cont}_{ij} + \beta_6 \text{FTA}_{ijt} \\ & + \beta_7 \text{Land}_{ij} + \beta_8 \text{Island}_{ij} + \beta_9 \ln(\text{Area}_i \text{Area}_j) + \beta_{10} \text{ComCol}_{ij} + \beta_{11} \text{CurCol}_{ijt} \\ & + \beta_{12} \text{Colony}_{ij} + \beta_{13} \text{ComNat}_{ij} + \gamma \text{CU}_{ijt} + \varepsilon_{ijt} \end{aligned}$$

where  $i$  and  $j$  denotes countries,  $t$  denotes time, and the variables are defined as:

- $X_{ijt}$  denotes the average value of real bilateral trade between  $i$  and  $j$  at time  $t$ ,
- $Y$  is real GDP,
- $\text{Pop}$  is population,
- $D$  is the distance between  $i$  and  $j$ ,
- $\text{Lang}$  is a binary variable which is unity if  $i$  and  $j$  have a common language,
- $\text{Cont}$  is a binary variable which is unity if  $i$  and  $j$  share a land border,

- FTA is a binary variable which is unity if  $i$  and  $j$  belong to the same regional trade agreement,
- Landl is the number of landlocked countries in the country-pair (0, 1, or 2).
- Island is the number of island nations in the pair (0, 1, or 2),
- Area is the land mass of the country,
- ComCol is a binary variable which is unity if  $i$  and  $j$  were ever colonies after 1945 with the same colonizer,
- CurCol is a binary variable which is unity if  $i$  and  $j$  are colonies at time  $t$ ,
- Colony is a binary variable which is unity if  $i$  ever colonized  $j$  or *vice versa*,
- ComNat is a binary variable which is unity if  $i$  and  $j$  remained part of the same nation during the sample (e.g., France and Guadeloupe, or the UK and Bermuda),
- CU is a binary variable which is unity if  $i$  and  $j$  use the same currency at time  $t$ ,
- $\beta$  is a vector of nuisance coefficients, and
- $\varepsilon_{ij}$  represents the myriad other influences on bilateral exports, assumed to be well behaved.

The coefficient of interest to us is  $\gamma$ , the effect of a currency union on trade.

We estimate the model with a number of techniques below. We follow the norm in the literature by using ordinary least squares, albeit with standard errors which are robust to clustering (since pairs of countries are likely to be highly dependent across years). However, the force of the paper rests in employing a number of panel data techniques. We use both fixed and random effects estimators extensively below. We rely on the robust fixed effects “within” estimator, which essentially adds a set of country-pair specific intercepts to the equation, and thus exploits only the time series dimension of the data set around country-pair averages.

### **The Data Set**

Rose (2000) exploited a large data set originally developed by the United Nations, covering 186 countries from 1970 through 1990. In this paper we instead use the CD-ROM “Direction of Trade” (DoT) data set developed by the International Monetary Fund (IMF).

The DoT data set covers bilateral trade between 217 IMF country codes between 1948 and 1997 (with many gaps). Not all of the areas covered are countries in the conventional sense of the word; colonies (e.g., Bermuda), territories (e.g., Guam), overseas departments (e.g.,

Guadeloupe), countries that gained their independence (e.g., Guinea-Bissau), and so forth are all included. We use the term “country” simply for convenience. (The countries are listed in Appendix 1.) Bilateral trade on FOB exports and CIF imports is recorded in American dollars; we deflate trade by the American CPI.<sup>3</sup> We create an average value of bilateral trade between a pair of countries by averaging all of the four possible measures potentially available.<sup>4</sup>

To this data set, we add a number of other variables that are necessary to estimate the gravity model. We add population and real GDP data (in constant dollars) from three sources. Wherever possible, we use “World Development Indicators” (taken from the World Bank’s WDI 2000 CD-ROM) data. When the data are unavailable from the World Bank, we fill in missing observations with comparables from the Penn World Table Mark 5.6, and (when all else fails), from the IMF’s “International Financial Statistics”.<sup>5</sup> The series have been checked and corrected for errors.

We exploit the CIA’s “World Factbook” for a number of country-specific variables. These include: latitude and longitude, land area, landlocked and island status, physically contiguous neighbors, language, colonizers, and dates of independence.<sup>6</sup> We use these to create great-circle distance and our other controls. We obtain data from the World Trade Organization to create an indicator of regional trade agreements, and include: EEC/EC/EU; US-Israel FTA; NAFTA; CARICOM; PATCRA; ANZCERTA; and Mercosur.<sup>7</sup>

Finally, we add information on whether the pair of countries was involved in a currency union. By “currency union” we mean essentially that money was interchangeable between the two countries at a 1:1 par for an extended period of time, so that there was no need to convert prices when trading between a pair of countries. Hard fixes (such as those of Hong Kong, Estonia, or Denmark) do not qualify as currency unions under our definition.<sup>8</sup> Our basic source for currency union data is the IMF’s *Schedule of Par Values* and issues of the IMF’s *Annual Report on Exchange Rate Arrangements and Exchange Restrictions*. We supplement this with information from annual copies of *The Statesman’s Yearbook*. Our definition of currency union is transitive; if country-pairs x-y, and x-z are in currency unions, then y-z is a currency union. In the data set, about 1% of the sample covers currency unions, a proportion comparable to that in Rose (2000). The currency unions in our data set are tabulated in Appendix 2. A number of currency unions are sufficiently integrated that trade data are unavailable; this will tend to bias our estimate of  $\gamma$  downwards.<sup>9</sup>

During the sample there were 16 switches into and 130 switches out of currency unions (for which we have data). There are a number of foibles with these regime switches. First, since we do not have many observations on currency union entries, we are forced to treat exits from and entries into currency unions symmetrically. Second, some of the transitions were related (e.g., Bermuda's switch from the pound sterling to the American dollar), and a number are cross-sectionally dependent (e.g., Equatorial Guinea entered the CFA franc zone and so joined a currency union vis-à-vis many countries simultaneously). But while we do not have 146 independent observations on regime transitions, the number is still substantive. Our techniques exploit this time series feature of the data.<sup>10</sup>

Descriptive statistics for the data set are tabulated in Table 1 for both currency unions and non-unions. Sample means for the key gravity regressors are broadly similar for currency unions and non-unions, the exception being the common language and colonial variables.

### **3: Gravity-Based Estimates of the Effect of Currency Unions on Trade**

#### **OLS Estimates**

We begin by estimating our gravity equation using conventional OLS (with a full set of year-specific intercepts added). Results are presented in Table 2.

The gravity model works well in a number of different dimensions. The model fits the data well, explaining almost two-thirds of the variation in bilateral trade flows. The gravity coefficients are economically and statistically significant with sensible interpretations. For instance, economically larger and richer countries trade more; more distant countries trade less. A common language, land border and membership in a regional trade agreement encourage trade, as does a common colonial history. The same nation coefficient is not intuitively signed but is statistically indistinguishable from zero.

The model delivers a  $\gamma$  estimate of 1.3, an estimate that is comparable to and slightly *higher* (in both economic and statistical significance) than that of Rose (2000). The estimate implies that a pair of countries that are joined by a common currency trade over three times as much with each other ( $e^{1.3} \approx 3.7$ ), holding other things constant.

It is possible to perform extensive robustness analysis for gravity estimates like those in Table 2. For instance, we have estimated the model using only the cross-sectional aspects of the model, ignoring the time series features of our panel data set. When we do this, we find that  $\gamma$

remains economically and statistically large when estimated on individual years, though it does vary somewhat; results are in Table 3. However, instead of pursuing that tack, we now make the most of the time series variation in our panel data set.

### **Fixed Effects Estimates**

The fixed effect “within” estimator is the most appropriate way to exploit the panel nature of the data set without making heroic assumptions. It estimates  $\gamma$  by comparing trade for a pair of countries before CU creation/dissolution to trade for the same pair of countries after CU creation/dissolution. There are only two possible drawbacks to the estimator: the impossibility of estimating time-invariant factors, and a potential lack of efficiency. Since our data set is large, we are prepared to ignore the latter problem. Since  $\gamma$  can manifestly (as will be shown below) be estimated from the time series variation in currency union incidence, the former problem does not arise.

Above and beyond econometric robustness, the fixed effect estimator has one enormous advantage. Since the within estimator exploits variation over time, *it answers the policy question of interest*, namely the (time series) question “What is the trade effect of a country joining (or leaving) a currency union?” This can be contrasted with the cross-sectional question “How much more do countries within currency unions trade than non-members?” which was answered by Rose (2000).

Estimation results are in Table 4. We present the fixed effects estimates of  $\gamma$  and a few of the key gravity coefficients in the left-hand column. For comparison, we also tabulate random effects estimates, using a generalized least squares estimator assuming Gaussian disturbances that are uncorrelated with the random (country-pair specific) effects. The “between” estimator (which essentially runs a regression on group averages) and a normal maximum likelihood estimator are also shown at the right-hand side of the table.

The fixed effects estimate of  $\gamma$  is smaller than the OLS estimates of Table 2 and 3. Since  $e^{.65} \approx 1.9$ , the estimate implies that joining a currency union leads bilateral trade to rise by about 90%, i.e., almost double. This effect is economically large, and statistically significant at conventional levels; the t-statistic is thirteen. The other estimators generate even bigger estimates of  $\gamma$ , though we prefer to be conservative. And while the nuisance ( $\beta$ ) coefficients vary between fixed and random effects, the estimate of  $\gamma$  is reasonably robust.

## Sensitivity Analysis

In Table 5, we provide some sensitivity analysis. We perturb our basic methodology in a number of different ways, and tabulate estimates of  $\gamma$  using both fixed and random effects estimators. In particular: 1) we add a comprehensive set of year-specific controls; 2) instead of using all years of the sample, we use only the data from every fifth year; 3) we add quadratics of both output and output per capital; 4) we throw out all industrial country observations (those with IFS country codes under 200); 5) we throw out all small country observations (those with GDP < \$1 billion); 6) we throw out all poor countries (those with real GDP per capita less than \$1,000); 7) we retain only similarly-sized country-pairs (i.e., those with GDPs which differ by less than a factor of five); 8) we retain only country-pairs where bilateral trade is a small fraction (less than 10%) of total trade for both countries; 9) we retain only observations after 1960; 10) we throw out all CFA-Franc observations; and 11) we throw out all ECCB observations, as well as those which involve the American dollar, the British pound sterling, or the French Franc.<sup>11</sup>

The results of Table 5 show that  $\gamma$  is reasonably insensitive to a number of different perturbations in our methodology. Our fixed effects estimates lie in the relatively narrow range of (.59, .80) and are consistent economically and statistically significant throughout. They are also consistent close to the random effects estimates of  $\gamma$ . Other estimators (such as the panel estimator tabulated in Table 2, the between and maximum likelihood estimators tabulated in Table 4) show even higher estimates.<sup>12</sup>

We have examined the symmetry of entries into and exits from currency unions, but are stymied by the paucity of observations on currency union entries (which are outnumbered by exits by a ratio of over 8:1). When we do separate currency union exits from entries, we find that the exit effect on trade is bigger than the entry effect, though our fixed effects and OLS estimates (but not the random effects estimate) do not reject equality of entry and exit coefficients at the .05 significance level. Nevertheless, it should be noted that exits tended to take place early in the sample while entries occurred late, so the effects of lags (as well as the number of data points) might bias the effect of entry downwards compared to the effect of exits. It would be interesting to pursue this issue using a methodology that accounts for the “interrupted spell” nature of the data, as well as the issues of (possibly non-randomly) missing data and repeated entries/exits from currency unions.

To summarize: a number of different panel estimators all deliver the conclusion that currency union has a strong positive effect on trade. We rely most on the fixed effects estimator since by essentially exploiting the time series variation in currency union arrangements, it is least demanding in terms of heroic econometric assumptions. Our fixed effects estimates indicate that entry into/departure from a currency union leads bilateral trade to approximately double/halve, holding a host of other features constant. This result is not only economically and statistically significant, but seems relatively robust.

### **Case Studies: Ireland, the UK and more**

The fact that currency union dissolution typically has a substantial depressing effect on bilateral trade means that the conclusions of Thom and Walsh (2000) cannot be reasonably generalized. Focusing on Ireland's departure from its sterling link in 1979, Thom and Walsh find mixed evidence of a substantial decline in Irish-British trade and conclude that currency union has only a negligible effect on trade. Our data set reproduces their finding. More precisely, the residuals from a gravity equation (which obviously excludes the currency union variable) show no structural break for Irish-British trade at or around 1979. Nevertheless, our results show that the case of Ireland-UK is atypical in not showing the decline in trade that is generally observed. That is, our use of a broad data set with many currency union transitions, rather than our methodology, account for the differences between our results and Thom and Walsh.

This point can be made effectively by simply graphing trade around the time of currency union dissolution. Figure 1 presents sixteen time-series plots of bilateral trade (measured, as always, by the natural logarithm of real trade in American dollars) against time. Few countries joined currency unions during the sample, so we only provide one example of a currency union creation (all remaining fifteen graphs depict trade before and after currency union dissolutions). Still, the top-left graph shows that when Equatorial Guinea joined the CFA in 1985 (an event marked with a vertical line), it experienced a surge in its trade with Cameroon, a CFA member.

The Irish departure from the pound sterling is portrayed immediately to the right. Immediately after Ireland's departure from sterling in 1979, its trade with Britain fell discretely for a period of years. Thom and Walsh tend to see a pig's ear in this decline, attributing it mostly to the business cycle, measurement error, and *ad hoc* effects. We tend to see a silk purse, but

readily admit that since the growth in bilateral trade eventually resumed, no persistent negative effect is apparent. Thus our data reproduces the negative effect found by Thom and Walsh.

Still, the Irish-British case was the exception, not the rule. A number of other countries also left sterling; we portray data for New Zealand (another OECD country), the Gambia, Malawi, Sierra Leone, Tanzania, Uganda and Zambia. All experienced declines in their trade with the UK. This is also true of a number of other countries that dissolved currency union links after WW2, as Figure 1 clearly shows.

Of course, the raw data portrayed in Figure 1 do not take into account the effects of output, free trade areas, independence, and the like. Further, it might be objected that we have chosen the case studies of Figure 1 carefully, as indeed we have. *But that is the quintessence of the case study approach.* It is also the reason we prefer to trust our panel study with a broad representative sample. The objective of the statistical work in Tables 2 through 5 is to show that currency union dissolution *typically* has a depressing effect on trade, even accounting for a host of other factors. This is true for the data sample as a whole, and also for many subsets of the data (though perhaps not for the Irish-British case).

### **Caveats**

There are issues associated with the applicability of our results. Since our sample ends before EMU, most of the currency unions involved countries that were either small, poor, or both; our results may therefore be inapplicable to EMU. Of course that is true of all work on currency unions. Ireland in 1979 was also small and poor compared to the EMU countries in 1998.<sup>13</sup> Thus, extrapolating from the single case considered by Thom and Walsh (2001) seems at least as dangerous as extrapolating from our many cases (which include the Ireland-UK case). In any case, our results may be highly relevant to the many small and/or poor countries considering “dollarization”. Further, there is no evidence that our results are very sensitive to the income or size of the countries involved, and López-Córdova and Meissner (2001) find similar results on gold-standard data. Nevertheless, Rose and van Wincoop (2001) attack these issues using a more structural approach that allows for trade diversion and multilateral spillover effects, and still find economically and statistically significant impacts of currency union on trade and welfare.

In addition, we treat currency unions as exogenous with respect to trade. There are a number of reasons to believe this assumption, since there is little evidence that countries have joined currency unions to increase trade. Nevertheless, some of the apparently large trade-creating effects of currency union may actually be a reflection of reverse causality. Rose (2000) and López-Córdova and Meissner (2001) provide evidence that the effect of monetary union on trade seems high even after accounting for potential endogeneity; Persson (2001) provides counter-arguments (but see Rose, 2001). But while we doubt the importance of this in practice, we have been unable to devise a convincing set of instrumental variables for bilateral currency union incidence that would allow us to quantify this effect.

Finally, the impact of currency union departure/entry on trade may be subject to extremely long lags. If we add a comprehensive set of dummy variables for years after currency union exit to our default OLS gravity specification (tabulated in Table 2), we can trace out the response of bilateral trade to currency union dissolution.<sup>14</sup> Figure 2 provides a graph of these coefficients plotted against years since currency union departure; that is, it provides an estimate of the typical impact of currency union dissolution on trade. Trade is almost always lower after currency union dissolution (except for a blip which appears about a decade) than during currency union (the latter effect is marked with a horizontal line), usually substantially so. Thirty years after currency union exit, bilateral trade has fallen by more than half. However, the data do not speak very loudly on the issue; the graph shows that even thirty years after a pair of countries has dissolved a currency union, they seem to share a disproportionate amount of trade, *ceteris paribus*. Since the lags are long compared with the span of our data set, we may even have under-estimated the eventual impact of currency union on trade.

#### **4. Conclusion**

In this paper we used a large panel data set to estimate the time series effect of currency union on trade. Our data set includes annual bilateral trade between over 200 countries from 1948 through 1997. During this period of time, a large number of countries joined or (mostly) left currency unions. Controlling for a host of other influences through an augmented gravity model, we find that a pair of countries which joined/left a currency union experienced a near-doubling/halving of bilateral trade. This result is economically large, statistically significant, and seems insensitive to a number of perturbations in our methodology.

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**Table 1: Descriptive Statistics**

	<b>Non-Unions</b>	<b>Currency Unions</b>
<b>Observations</b>	422,715	4,077
<b>Log Real Trade</b>	10.7 (3.7)	10.6 (3.1)
<b>Log Distance</b>	8.2 (.8)	7.1 (1.0)
<b>Log product GDP</b>	47.9 (2.6)	44.7 (3.1)
<b>Log product GDP/capita</b>	16.1 (1.4)	14.5 (1.6)
<b>Common Language Dummy</b>	.15 (.35)	.85 (.36)
<b>Land Border Dummy</b>	.02 (.14)	.16 (.36)
<b>Regional Trade Agreement</b>	.01 (.08)	.07 (.26)
<b>Number Landlocked</b>	.23 (.45)	.31 (.54)
<b>Number Islands</b>	.35 (.54)	.44 (.71)
<b>Log Product Land Areas</b>	23.8 (3.6)	23.2 (4.3)
<b>Common Colonizer</b>	.06 (.24)	.66 (.47)
<b>Current Colony</b>	.002 (.04)	.16 (.37)
<b>Ever Colony</b>	.01 (.11)	.23 (.42)
<b>Same Nation</b>	.001 (.02)	.09 (.28)

Means, with standard deviations reported in parentheses

**Table 2: Pooled Panel OLS Gravity Estimates**

<b>Currency Union</b>	1.30 (.13)
<b>Log Distance</b>	-1.11 (.02)
<b>Log Product Real GDPs</b>	.93 (.01)
<b>Log Product Real GDP/capita</b>	.46 (.02)
<b>Common Language</b>	.32 (.04)
<b>Common Land Border</b>	.43 (.12)
<b>Regional Trade Agreement</b>	.99 (.13)
<b>Number Landlocked</b>	-.14 (.03)
<b>Number Islands</b>	.05 (.04)
<b>Log Product Land Areas</b>	-.09 (.01)
<b>Common Colonizer</b>	.45 (.07)
<b>Current Colony</b>	.82 (.25)
<b>Ever Colony</b>	1.31 (.13)
<b>Same Nation</b>	-.23 (1.05)
<b>Observations</b>	219,558
<b>R<sup>2</sup></b>	.64
<b>RMSE</b>	2.02

Intercept and year controls not recorded.

Standard errors robust to country-pair clustering recorded in parentheses.

Annual data for 217 countries, 1948-1997.

**Table 3: Cross-Sectional OLS Gravity Estimates of the Currency Union Effect**

Year	$\gamma$ (se)
1950	.98 (.32)
1955	1.04 (.26)
1960	.71 (.17)
1965	.84 (.15)
1970	1.40 (.21)
1975	1.23 (.23)
1980	1.13 (.24)
1985	1.81 (.23)
1990	2.39 (.25)
1995	1.49 (.23)

Controls not reported: distance, output, output per capita, language, land border, FTA, landlocked, islands, land area, common colonizer, current colony, ever colony, same nation, and constant.

Standard errors recorded in parentheses.

Annual data for 217 countries.

**Table 4: Pooled Panel Gravity Estimates**

	<b>Fixed effects</b> (“within”)	<b>Random effects</b> <b>GLS</b>	<b>Between Estimator</b>	<b>Maximum Likelihood</b>
<b>Currency Union</b>	.65 (.05)	.70 (.05)	1.52 (.25)	.69 (.05)
<b>Log Distance</b>		-1.35 (.03)	-1.42 (.03)	-1.35 (.04)
<b>Log Product Real GDPs</b>	.05 (.01)	.27 (.01)	.98 (.01)	.23 (.01)
<b>Log Product Real GDP/capita</b>	.79 (.01)	.52 (.01)	.46 (.02)	.57 (.01)
<b>Common Language</b>		.18 (.06)	.38 (.06)	.16 (.07)
<b>Common Land Border</b>		.53 (.16)	.50 (.17)	.54 (.19)
<b>R<sup>2</sup>: Within</b>	.12	.12	.11	
<b>R<sup>2</sup>: Between</b>	.23	.52	.63	
<b>R<sup>2</sup>: Overall</b>	.22	.47	.58	
<b>Hausman Test (p-value)</b>		.00		

219,558 observations in 11,178 country-pair groups. Obs per group within [1,50], mean=19.6.

Intercepts not recorded. Other controls not recorded: a) regional FTA membership; b) # landlocked; c) # islands; d) area; e) common colonizer; f) current colony/colonizer; g) ever colony/colonizer; h) common country.

Standard errors in parentheses.

Annual data for 217 countries, 1948-1997.

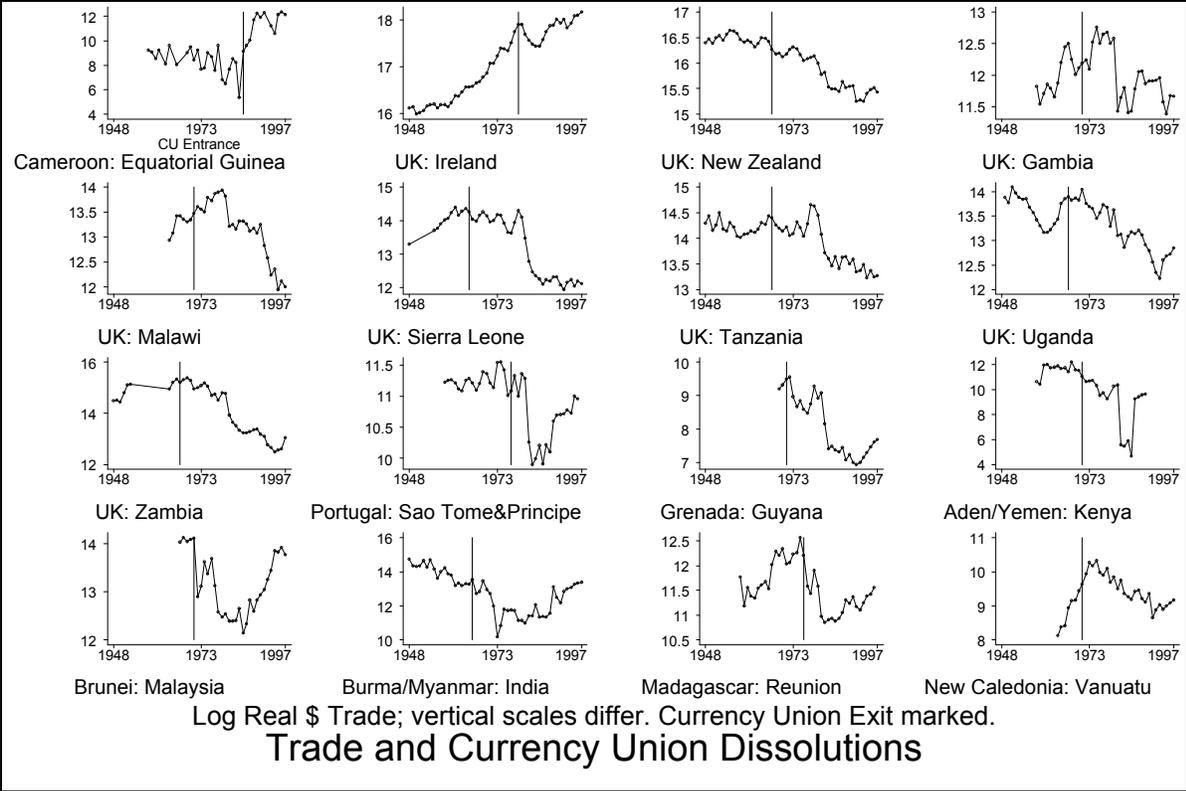
**Table 5: Sensitivity Analysis of the Panel Currency Union Effect**

	<b>Fixed effects</b> (“within”)	<b>Random effects</b> <b>GLS</b>
<b>Year Controls</b>	.59 (.05)	.58 (.05)
<b>Data at Five-Year Intervals</b>	.80 (.11)	.88 (.10)
<b>Quadratic Output Terms Added</b>	.61 (.05)	.64 (.05)
<b>No Industrial Countries</b>	.65 (.08)	.68 (.08)
<b>No Small Countries</b>	.68 (.06)	.73 (.06)
<b>No Poor Countries</b>	.67 (.08)	.72 (.08)
<b>Similarly-Size Countries</b>	.69 (.08)	.71 (.08)
<b>Countries with Unimportant Bilateral Trade</b>	.65 (.06)	.69 (.06)
<b>No Pre-1960 Observations</b>	.62 (.05)	.68 (.05)
<b>No CFA Observations</b>	.69 (.06)	.79 (.06)
<b>No ECCB/American Dollar/French Franc/British Pound Observations</b>	.71 (.06)	.74 (.06)

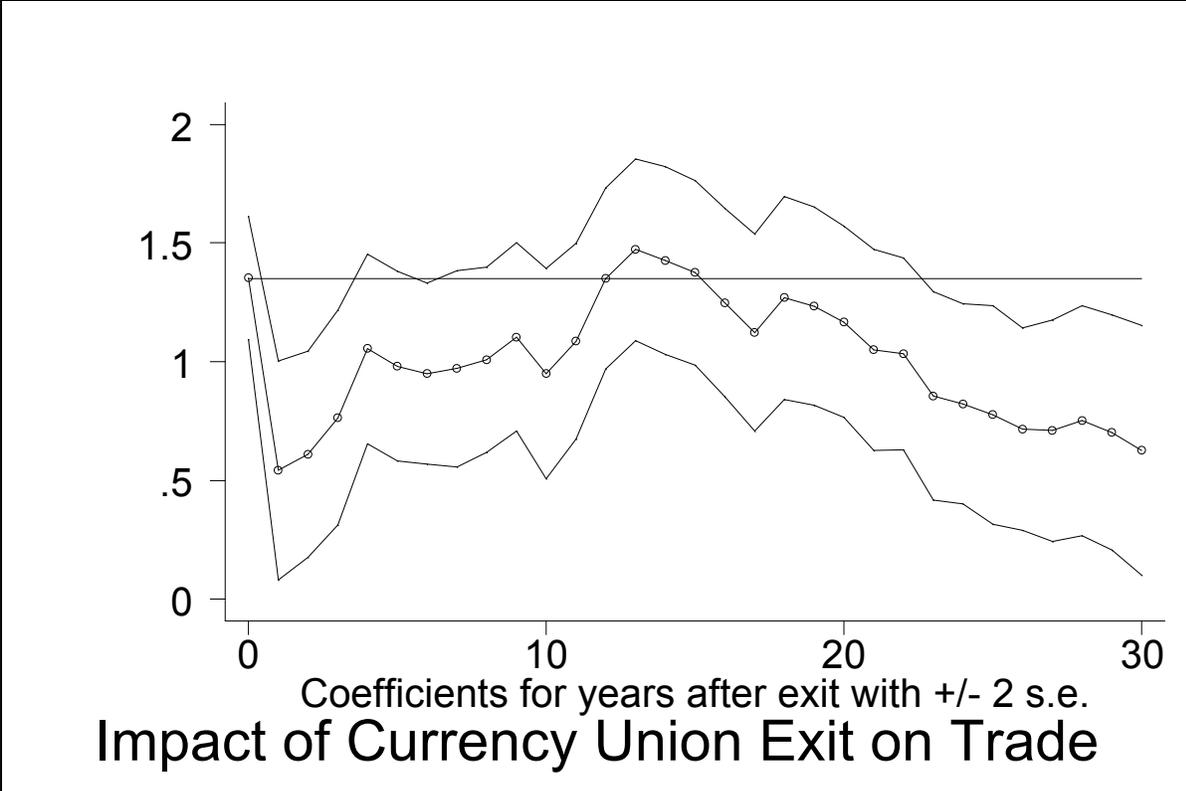
Controls not reported: distance, output, output per capita, language, land border, FTA, landlocked, islands, land area, common colonizer, current colony, ever colony, same nation, and constant.

Standard errors in parentheses.

Annual data, 1948-1997.



**Figure 1: The Impact of Currency Union Dissolution on Trade over Time: Case Studies**



**Figure 2: Estimated Typical Impact of Currency Union Dissolution on Trade over Time**

## Appendix 1: Countries in Sample

Afghanistan	Djibouti	Kuwait
Albania	Dominica	Kyrgyz Republic
Algeria	Dominican Rep.	Lao People's Dem. Rep.
American Samoa	Eastern Germany	Latvia
Angola	Ecuador	Lebanon
Anguilla	Egypt	Lesotho
Antigua and Barbuda	El Salvador	Liberia
Argentina	Equatorial Guinea	Libya
Armenia	Eritrea	Lithuania
Aruba	Estonia	Luxembourg
Australia	Ethiopia	Macao
Austria	Faeroe Islands	Macedonia
Azerbaijan	Falkland Islands	Madagascar
Bahamas	Fiji	Malawi
Bahrain	Finland	Malaysia
Bangladesh	France	Maldives
Barbados	French Guiana	Mali
Belarus	French Polynesia	Malta
Belgium	Gabon	Martinique
Belize	Gambia	Mauritania
Benin	Georgia	Mauritius
Bermuda	Germany	Mexico
Bhutan	Ghana	Moldova
Bolivia	Gibraltar	Mongolia
Bosnia & Herzegovina	Greece	Montserrat
Botswana	Greenland	Morocco
Brazil	Grenada	Mozambique
Brunei Darussalam	Guadeloupe	Namibia
Bulgaria	Guam	Nauru
Burkina Faso	Guatemala	Nepal
Burma (Myanmar)	Guinea	Netherlands
Burundi	Guinea-Bissau	Netherlands Antilles
Cambodia	Guyana	New Caledonia
Cameroon	Haiti	New Zealand
Canada	Honduras	Nicaragua
Cape Verde	Hong Kong	Niger
Cayman Islands	Hungary	Nigeria
Central African Rep.	Iceland	Norway
Chad	India	Oman
Chile	Indonesia	Pakistan
China	Iran	Panama
Colombia	Iraq	Papua N. Guinea
Comoros	Ireland	Paraguay
Congo, Dem. Rep. of (Zaire)	Israel	Peru
Congo, Rep. of	Italy	Philippines
Costa Rica	Jamaica	Poland
Cote D'Ivoire (Ivory Coast)	Japan	Portugal
Croatia	Jordan	Qatar
Cuba	Kazakhstan	Reunion
Cyprus	Kenya	Romania
Czech Republic	Kiribati	Russia
Czechoslovakia	Korea, North	Rwanda
Denmark	Korea, South (R)	Samoa

Sao Tome & Principe  
Saudi Arabia  
Senegal  
Seychelles  
Sierra Leone  
Singapore  
Slovak Republic  
Slovenia  
Solomon Islands  
Somalia  
Somaliland, British  
South Africa  
Spain  
Spanish Sahara  
Sri Lanka  
St. Helena  
St. Kitts&Nevis  
St. Pierre&Miquelon  
St.Lucia  
St.Vincent & Gren.

Sudan  
Suriname  
Swaziland  
Sweden  
Switzerland  
Syria  
Tajikistan  
Tanzania  
Thailand  
Timor  
Togo  
Tonga  
Trinidad&Tobago  
Tunisia  
Turkey  
Turkmenistan  
Tuvalu  
U.S.S.R.  
Uganda  
Ukraine

United Arab Emirates  
United Kingdom  
United States  
Uruguay  
Uzbekistan  
Vanuatu  
Venezuela  
Vietnam  
Wake Islands  
Wallis & Futuna  
West Bank/Gaza Strip  
Yemen Arab Rep.  
Yemen, P.D.R.  
Yemen, Republic of  
Yugoslavia, Fr  
(Serbia/Montenegro)  
Yugoslavia, Socialist Fed. Rep.  
Zambia  
Zimbabwe

## Appendix 2: Currency Unions in Sample

Currency Union Members		End			
Antigua And Barbuda	Barbados	1975	Bhutan	Pakistan	1966
Antigua And Barbuda	Dominica	ongoing	Botswana	Lesotho	1977
Antigua And Barbuda	Grenada	ongoing	Botswana	Swaziland	1977
Antigua And Barbuda	Guyana	1971	Brunei Darussalam	Malaysia	1971
Antigua And Barbuda	Montserrat	ongoing	Brunei Darussalam	Singapore	ongoing
Antigua And Barbuda	St. Kitts&Nevis	ongoing	Burma(Myanmar)	India	1966
Antigua And Barbuda	St.Lucia	ongoing	Burma(Myanmar)	Pakistan	1971
Antigua And Barbuda	St.Vincent&Gren	ongoing	Cameroon	Benin	ongoing
Antigua And Barbuda	Trinidad&Tobago	1976	Cameroon	Burkina Faso	ongoing
Aruba	Netherlands Antilles	ongoing	Cameroon	Central African Rep.	ongoing
Aruba	Suriname	1994	Cameroon	Chad	ongoing
Australia	Kiribati	ongoing	Cameroon	Comoros	1994
Australia	Nauru	ongoing	Cameroon	Congo, Rep. Of	ongoing
Australia	Solomon Islands	1979	Cameroon	Cote D'ivorie (Ivory Coast)	ongoing
Australia	Tonga	1991	Cameroon	Equatorial Guinea	ongoing
Australia	Tuvalu	ongoing	Cameroon	Gabon	ongoing
Bangladesh	India	1974	Cameroon	Guinea	1969
Barbados	Dominica	1975	Cameroon	Guinea-Bissau	ongoing
Barbados	Grenada	1975	Cameroon	Madagascar	1982
Barbados	Guyana	1971	Cameroon	Mali	ongoing
Barbados	Montserrat	1975	Cameroon	Mauritania	1974
Barbados	St. Kitts&Nevis	1975	Cameroon	Niger	ongoing
Barbados	St.Lucia	1975	Cameroon	Reunion	1976
Barbados	St.Vincent&Gren	1975	Cameroon	Senegal	ongoing
Barbados	Trinidad&Tobago	1975	Cameroon	Togo	ongoing
Belgium	Burundi	1964	Central African Rep.	Benin	ongoing
Belgium	Congo, Dem. Rep. Of (Zaire)	1961	Central African Rep.	Burkina Faso	ongoing
Belgium	Rwanda	1966	Central African Rep.	Chad	ongoing
Belgium-Luxembourg	Burundi	1964	Central African Rep.	Comoros	1994
Belgium-Luxembourg	Congo, Dem. Rep. Of (Zaire)	1961	Central African Rep.	Congo, Rep. Of	ongoing
Belgium-Luxembourg	Rwanda	1966	Central African Rep.	Cote D'ivorie (Ivory Coast)	ongoing
Benin	Burkina Faso	ongoing	Central African Rep.	Equatorial Guinea	ongoing
Benin	Cote D'ivorie (Ivory Coast)	ongoing	Central African Rep.	Gabon	ongoing
Benin	Equatorial Guinea	ongoing	Central African Rep.	Guinea	1969
Benin	Gabon	ongoing	Central African Rep.	Guinea-Bissau	ongoing
Benin	Guinea	1969	Central African Rep.	Madagascar	1982
Benin	Guinea-Bissau	ongoing	Central African Rep.	Mali	ongoing
Benin	Madagascar	1982	Central African Rep.	Mauritania	1974
Benin	Mali	ongoing	Central African Rep.	Niger	ongoing
Benin	Mauritania	1974	Central African Rep.	Reunion	1976
Benin	Niger	ongoing	Central African Rep.	Senegal	ongoing
Benin	Reunion	1976	Chad	Togo	ongoing
Benin	Senegal	ongoing	Chad	Benin	ongoing
Benin	Togo	ongoing	Chad	Burkina Faso	ongoing
Bhutan	India	ongoing	Chad	Comoros	1994
			Chad	Congo, Rep. Of	ongoing

Chad	Cote D'ivorie (Ivory Coast)	ongoing	Cote D'ivorie (Ivory Coast)	Togo	ongoing
Chad	Equatorial Guinea	ongoing	Denmark	Faeroe Islands	ongoing
Chad	Gabon	ongoing	Denmark	Greenland	ongoing
Chad	Guinea	1969	Djibouti	Benin	1949
Chad	Guinea-Bissau	ongoing	Djibouti	Burkina Faso	1949
Chad	Madagascar	1982	Djibouti	Cameroon	1949
Chad	Mali	ongoing	Djibouti	Central African Rep.	1949
Chad	Mauritania	1974	Djibouti	Chad	1949
Chad	Niger	ongoing	Djibouti	Comoros	1949
Chad	Reunion	1976	Djibouti	Congo, Rep. Of	1949
Chad	Senegal	ongoing	Djibouti	Cote D'ivorie (Ivory Coast)	1949
Chad	Togo	ongoing	Djibouti	Gabon	1949
Comoros	Benin	1994	Djibouti	Guinea	1949
Comoros	Burkina Faso	1994	Djibouti	Madagascar	1949
Comoros	Congo, Rep. Of	1994	Djibouti	Mali	1949
Comoros	Cote D'ivorie (Ivory Coast)	1994	Djibouti	Mauritania	1949
Comoros	Equatorial Guinea	1994	Djibouti	Niger	1949
Comoros	Gabon	1994	Djibouti	Reunion	1949
Comoros	Guinea	1969	Djibouti	Senegal	1949
Comoros	Madagascar	1982	Djibouti	Togo	1949
Comoros	Mali	1994	Dominica	Grenada	ongoing
Comoros	Mauritania	1974	Dominica	Guyana	1971
Comoros	Niger	1994	Dominica	Montserrat	ongoing
Comoros	Reunion	1976	Dominica	St. Kitts&Nevis	ongoing
Comoros	Senegal	1994	Dominica	St.Lucia	ongoing
Comoros	Togo	1994	Dominica	St.Vincent&Gren	ongoing
Congo, Rep. Of	Benin	ongoing	Dominica	Trinidad&Tobago	1976
Congo, Rep. Of	Burkina Faso	ongoing	Equatorial Guinea	Burkina Faso	ongoing
Congo, Rep. Of	Cote D'ivorie (Ivory Coast)	ongoing	Equatorial Guinea	Cote D'ivorie (Ivory Coast)	ongoing
Congo, Rep. Of	Equatorial Guinea	ongoing	Equatorial Guinea	Gabon	ongoing
Congo, Rep. Of	Gabon	ongoing	Equatorial Guinea	Guinea-Bissau	ongoing
Congo, Rep. Of	Guinea	1969	Equatorial Guinea	Mali	ongoing
Congo, Rep. Of	Guinea-Bissau	ongoing	Equatorial Guinea	Niger	ongoing
Congo, Rep. Of	Madagascar	1982	Equatorial Guinea	Senegal	ongoing
Congo, Rep. Of	Mali	ongoing	Equatorial Guinea	Togo	ongoing
Congo, Rep. Of	Mauritania	1974	France	Algeria	1969
Congo, Rep. Of	Niger	ongoing	France	French Guiana	ongoing
Congo, Rep. Of	Reunion	1976	France	Guadeloupe	ongoing
Congo, Rep. Of	Senegal	ongoing	France	Martinique	ongoing
Congo, Rep. Of	Togo	ongoing	France	Morocco	1959
Cote D'ivorie (Ivory Coast)	Burkina Faso	ongoing	France	Reunion	ongoing
Cote D'ivorie (Ivory Coast)	Madagascar	1982	France	St. Pierre&Miquelon	ongoing
Cote D'ivorie (Ivory Coast)	Mali	ongoing	France	Tunisia	1958
Cote D'ivorie (Ivory Coast)	Mauritania	1974	Gabon	Burkina Faso	ongoing
Cote D'ivorie (Ivory Coast)	Niger	ongoing	Gabon	Cote D'ivorie (Ivory Coast)	ongoing
Cote D'ivorie (Ivory Coast)	Reunion	1976	Gabon	Guinea	1969
Cote D'ivorie (Ivory Coast)	Senegal	ongoing	Gabon	Guinea-Bissau	ongoing

Gabon	Madagascar	1982	Madagascar	Burkina Faso	1982
Gabon	Mali	ongoing	Madagascar	Mali	1982
Gabon	Mauritania	1974	Madagascar	Mauritania	1974
Gabon	Niger	ongoing	Madagascar	Niger	1982
Gabon	Reunion	1976	Madagascar	Reunion	1976
Gabon	Senegal	ongoing	Madagascar	Senegal	1982
Gabon	Togo	ongoing	Madagascar	Togo	1982
Gambia	Ghana	1965	Malawi	Zambia	1967
Gambia	Nigeria	1967	Malawi	Zimbabwe	1967
Gambia	Sierra Leone	1965	Malaysia	Singapore	1971
Ghana	Nigeria	1965	Maldives	Mauritius	1967
Ghana	Sierra Leone	1965	Maldives	Pakistan	1971
Grenada	Guyana	1971	Mali	Burkina Faso	ongoing
Grenada	Montserrat	ongoing	Mali	Mauritania	1974
Grenada	St. Kitts&Nevis	ongoing	Mali	Niger	ongoing
Grenada	St.Lucia	ongoing	Mali	Reunion	1976
Grenada	St.Vincent&Gren	ongoing	Mali	Senegal	ongoing
Grenada	Trinidad&Tobago	1976	Mali	Togo	ongoing
Guinea	Burkina Faso	1969	Mauritania	Burkina Faso	1974
Guinea	Cote D'ivoirie (Ivory Coast)	1969	Mauritania	Niger	1974
Guinea	Madagascar	1969	Mauritania	Reunion	1974
Guinea	Mali	1969	Mauritania	Senegal	1974
Guinea	Mauritania	1969	Mauritania	Togo	1974
Guinea	Niger	1969	Mauritius	Seychelles	1976
Guinea	Reunion	1969	Montserrat	St. Kitts&Nevis	ongoing
Guinea	Senegal	1969	Montserrat	St.Lucia	ongoing
Guinea	Togo	1969	Montserrat	St.Vincent&Gren	ongoing
Guinea-Bissau	Burkina Faso	ongoing	Montserrat	Trinidad&Tobago	1976
Guinea-Bissau	Cote D'ivoirie (Ivory Coast)	ongoing	Netherlands Antilles	Suriname	1994
Guinea-Bissau	Mali	ongoing	New Caledonia	French Polynesia	ongoing
Guinea-Bissau	Niger	ongoing	New Caledonia	Vanuatu	1971
Guinea-Bissau	Senegal	ongoing	New Caledonia	Wallis & Futuna	ongoing
Guinea-Bissau	Togo	ongoing	New Zealand	Samoa	1967
Guyana	Montserrat	1971	Niger	Burkina Faso	ongoing
Guyana	St. Kitts&Nevis	1971	Niger	Reunion	1976
Guyana	St.Lucia	1971	Niger	Senegal	ongoing
Guyana	St.Vincent&Gren	1971	Niger	Togo	ongoing
Guyana	Trinidad&Tobago	1971	Nigeria	Sierra Leone	1965
India	Maldives	1966	Oman	India	1970
India	Mauritius	1966	Pakistan	Mauritius	1967
India	Pakistan	1966	Pakistan	Seychelles	1967
India	Seychelles	1966	Portugal	Angola	1976
Kenya	Somalia	1971	Portugal	Cape Verde	1977
Kenya	Tanzania	1978	Portugal	Guinea-Bissau	1977
Kenya	Uganda	1978	Portugal	Mozambique	1977
Kuwait	India	1961	Portugal	Sao Tome & Principe	1977
Lesotho	Swaziland	ongoing	Qatar	India	1966

Qatar	United Arab Emirates	ongoing	United Kingdom	Iraq	1967
Reunion	Burkina Faso	1976	United Kingdom	Ireland	1979
Reunion	Senegal	1976	United Kingdom	Israel	1954
Reunion	Togo	1976	United Kingdom	Jamaica	1969
Senegal	Burkina Faso	ongoing	United Kingdom	Jordan	1967
Senegal	Togo	ongoing	United Kingdom	Kenya	1967
Somalia	Tanzania	1971	United Kingdom	Kuwait	1967
Somalia	Uganda	1971	United Kingdom	Libya	1967
South Africa	Botswana	1977	United Kingdom	Malawi	1971
South Africa	Lesotho	ongoing	United Kingdom	Malta	1971
South Africa	Swaziland	ongoing	United Kingdom	New Zealand	1967
Spain	Equatorial Guinea	1969	United Kingdom	Nigeria	1967
Sri Lanka	India	1966	United Kingdom	Oman	1971
Sri Lanka	Pakistan	1967	United Kingdom	Samoa	1967
St. Kitts&Nevis	St.Lucia	ongoing	United Kingdom	Sierra Leone	1965
St. Kitts&Nevis	St.Vincent&Gren	ongoing	United Kingdom	Somalia	1967
St. Kitts&Nevis	Trinidad&Tobago	1976	United Kingdom	South Africa	1961
St. Pierre&Miquelon	Benin	1976	United Kingdom	St. Helena	ongoing
St. Pierre&Miquelon	Burkina Faso	1976	United Kingdom	Tanzania	1967
St. Pierre&Miquelon	Cameroon	1976	United Kingdom	Uganda	1967
St. Pierre&Miquelon	Central African Rep.	1976	United Kingdom	Yemen, P.D.R.	1972
St. Pierre&Miquelon	Chad	1976	United Kingdom	Yemen, Republic Of	1972
St. Pierre&Miquelon	Comoros	1976	United Kingdom	Zambia	1967
St. Pierre&Miquelon	Congo, Rep. Of	1976	United Kingdom	Zimbabwe	1967
St. Pierre&Miquelon	Cote D'ivoirie (Ivory Coast)	1976	United States	American Samoa	ongoing
St. Pierre&Miquelon	Djibouti	1949	United States	Bahamas	ongoing
St. Pierre&Miquelon	Gabon	1976	United States	Belize	1949
St. Pierre&Miquelon	Guinea	1969	United States	Bermuda	ongoing
St. Pierre&Miquelon	Madagascar	1976	United States	Dominican Rep.	1985
St. Pierre&Miquelon	Mali	1976	United States	Guam	ongoing
St. Pierre&Miquelon	Mauritania	1974	United States	Guatemala	1986
St. Pierre&Miquelon	Niger	1976	United States	Liberia	ongoing
St. Pierre&Miquelon	Reunion	1976	United States	Panama	ongoing
St. Pierre&Miquelon	Senegal	1976	Vanuatu	French Polynesia	1971
St. Pierre&Miquelon	Togo	1976	Vanuatu	Wallis & Futuna	1971
St.Lucia	St.Vincent&Gren	ongoing	Wallis & Futuna	French Polynesia	ongoing
St.Lucia	Trinidad&Tobago	1976	Yemen, P.D.R.	India	1951
St.Vincent&Gren	Trinidad&Tobago	1976	Yemen, P.D.R.	Kenya	1972
Tanzania	Uganda	1978	Yemen, P.D.R.	Somalia	1971
Togo	Burkina Faso	ongoing	Yemen, P.D.R.	Tanzania	1972
United Kingdom	Bahamas	1966	Yemen, P.D.R.	Uganda	1972
United Kingdom	Bermuda	1970	Yemen, Republic Of	India	1951
United Kingdom	Cyprus	1972	Yemen, Republic Of	Kenya	1972
United Kingdom	Falkland Islands	ongoing	Yemen, Republic Of	Somalia	1971
United Kingdom	Gambia	1971	Yemen, Republic Of	Tanzania	1972
United Kingdom	Ghana	1965	Yemen, Republic Of	Uganda	1972
United Kingdom	Gibraltar	ongoing	Zimbabwe	Zambia	1967

### Appendix 3: Simple Bivariate Correlations

	Trade	Curr. Union	Distance	GDP	GDP p/c	Lang.	Border	Regional	Landlck	Island	Area	Com Col	Cur.Col	Ever Col
<b>Curr. Union</b>	.00													
<b>Distance</b>	-.17	-.18												
<b>GDP</b>	.67	-.14	.18											
<b>GDP p/c</b>	.41	-.13	.11	.38										
<b>Language</b>	-.01	.19	-.13	-.18	-.05									
<b>Border</b>	.11	.12	-.42	-.02	-.12	.12								
<b>FTA</b>	.08	.08	-.25	-.06	.08	.10	.08							
<b>Landlocked</b>	-.15	.04	-.09	-.12	-.21	-.01	.08	-.05						
<b>Island</b>	-.17	.00	.15	-.30	.20	.10	-.11	.08	-.19					
<b>Area</b>	.27	-.01	.10	.57	-.22	-.11	.10	-.13	.04	-.51				
<b>Com. Colonizer</b>	-.16	.26	-.15	-.32	-.18	.37	.06	.12	.02	.19	-.26			
<b>Cur. Colony</b>	.05	.15	.01	-.01	.01	.07	-.01	-.01	-.02	.01	-.03	-.02		
<b>Ever Colony</b>	.15	.08	-.02	.08	.06	.19	.03	.00	-.03	-.03	.01	-.05	.31	
<b>Same Nation</b>	.02	.05	.00	-.00	.02	.03	-.00	-.00	-.01	.02	-.03	-.01	.39	.12

Number of Observations = 219,558 => standard error ≈ .002.

## Endnotes

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<sup>1</sup> We treat “common currencies”, “currency unions”, “monetary unions” and so forth synonymously.

<sup>2</sup> Gravity models have been much discussed in the literature; Rose (2000) provides references.

<sup>3</sup> As a result, fluctuations in the American dollar may affect our results. We know of no way to correct for this systematically. Still, we are not worried since the majority of currency union switches took place before 1970 when exchange rates were fixed (typically to the dollar). Also, there are a few instances where only FOB imports are available; we then use them instead of CIF imports.

<sup>4</sup> Since both exports and imports are measured by both countries, there are potentially four measured bilateral trade flows: exports from a to b, exports from b to a, imports into a from b, and imports into b from a.

<sup>5</sup> The IFS-based series are calculated by converting national currency GDP figures into dollars at the current dollar exchange rate, and then dividing by the US GDP deflator.

<sup>6</sup> The website is: <http://www.odci.gov/cia/publications/factbook>.

<sup>7</sup> Since we are not primarily interested in estimating the FTA effect, we treat all FTAs as being equal.

<sup>8</sup> Though there is nothing in principle to preclude one from following Rose (2000) in adding exchange rate volatility to the model.

<sup>9</sup> These include Andorra-Spain/France; Belgium-Luxembourg; Austria-Liechtenstein; France-Morocco; Italy-Vatican; and South Africa-Lesotho/Swaziland/Namibia.

<sup>10</sup> These regime switches almost always occur before 1970, so that a time series technique was essentially not feasible for Rose’s UN data set.

<sup>11</sup> We have also used different measures of exchange rate stability (e.g., not requiring that the exchange rate between the countries be 1:1 so long as it is extremely stable) without altering our conclusion that extreme monetary stability encourages trade.

<sup>12</sup> Also, a random effects estimator corrected for AR(1) disturbances delivers an estimate of  $\gamma=.73$  with a standard error of .08.

<sup>13</sup> The World Bank estimates real Irish GDP per capita in world prices at \$6801 in 1979. By 1998 (start of EMU), Portugal, the poorest member of the initial EMU-11 had a comparable GDP per capita of \$9017, and most EMU countries like France, Germany, and Italy had figures exceeding \$14,000.

<sup>14</sup> That is, we add a dummy that is one for observations that occur precisely a year after currency union dissolution and zero otherwise, another that is one for observations two years after currency union exit, and so forth. We focus on currency union exits since there are few entries in the data set.