Carleton University
Centre for European Studies
European Union Centre of Excellence

HANDOUT #1- Key concepts

Monetary policy: Policy established by a country's central bank to monitor and regulate the money supply.

Monetary policy tools: The central bank of any country has a variety of tools at its disposal to affect the money supply of that country. These include the purchase and sale of government bonds, the purchase and sale of foreign currency, setting the interest rates (for loans to commercial banks, the 'Bank Rate') and printing money.

Fiscal policy: The policies used by a government to influence the economy through taxation and public expenditure.

Euro: The Euro is the currency used by 17 countries in the European Union. Starting in 1999, these countries relinquished their national currencies in favour of a common currency. This was done for a number of economic and political reasons. Today, over 330 million Europeans use the euro as their currency. The countries that use the euro as a currency are called Eurozone countries.

European Central Bank: The European Central Bank is the institution in charge of monetary policy for Eurozone countries. It is headquartered in Frankfurt, Germany, and headed by Italian Mario Draghi.

Optimum currency area: A theory, first developed by Robert Mundell in 1961, that outlines the conditions necessary for a successful common currency. Debate exists as to whether the Eurozone countries meet these minimum conditions. These include: a) countries trade extensively with each other, *b*) the economic cycles in the different countries are in phase (i.e., the regions face symmetric shocks), c) labour markets are integrated and workers are able and willing to travel between regions and d) there are automatic mechanisms to transfer funds to regions suffering from asymmetric shocks.

What are some of the benefits and costs to joining a common currency system?

Benefits	Costs