Euro Updates as of January 2023:
Eurozone: Members: 20. Population 347 million
EU: Members: 27. Population 447 million

Syllabus Item 148 (HL)				
Euro	Advantages	Notes	Disadvantages	Notes
1	**Elimination of the costs of converting currencies**	Lower costs of production for firms so supply (or SRAS) shifts downwards to right	**"One size fits all policy"**	One interest rate policy for all member countries although their macroeconomic performance varies
2	**Increased price transparency**	Consumers have access to lower prices in the single market. Many goods sold on Amazon in Germany come from other EU member countries	**Differing policy effects**	UK and Ireland high % of home ownership so interest rates on mortgages have a big impact on consumption spending.
3	**Increased competition and efficiency**	Firms need to respond to competitor prices so this drives prices down and firms are forced to be more efficient	**External Shocks affect countries differently**	Some countries have been more affected by external shocks e.g. Germany very reliant on Russian gas in 2022 with higher inflation so countries differ in their need to adjust interest rates.
4	**Increased inward investment i.e. Foreign Direct Investment (FDI).**	Costs of doing business and FDI is reduced	**Transition costs**	Short run impact only.
5	**Elimination of exchange rate uncertainty**	No need to consider exchange rates as these are eliminated so decisions not influenced by current exchange rate values		

Advantages Explained:

1. **Elimination of the costs of converting currencies** - converting between currencies has a cost for individuals and firms. A single currency will remove these costs.
2. **Increased price transparency** - prices in different currencies can be difficult to compare. How often do you travel around with a calculator, to check the price of something in another country? If everything is in the same currency, price comparison is straightforward. This may help firms cut costs, as they will be able to find the cheapest product more easily.
3. **Increased competition and efficiency** - a single currency should encourage greater competition as there is greater transparency in prices. This should help increase efficiency as firms are forced to remain competitive.
4. **Increased inward investment** - the single market in Europe has in excess of 200 million consumers and after enlargement in 2004 has in excess of 300 million. The Euro is one of the most significant world currencies. Both these things add up to the possibility of increased inward investment from the rest of the world into Europe.
5. **Elimination of exchange rate uncertainty** - one of the problems with trading with other countries is that you never know which way the exchange rate will move. It may move in your favour, but it could equally move against you and end up costing you a lot more. This sort of uncertainty can hinder trade - particularly for smaller firms. A single currency gets rid of all this uncertainty within the single currency zone, and should encourage trade (within the zone).

DIS- Advantages Explained:

1. **"One size fits all policy"** - a single currency requires a single monetary policy. This means interest rates being set centrally for all Euro countries. Say an individual country is suffering a downturn in economic activity, but the rest are booming. The European Central Bank may want to increase interest rates, but that would simply worsen the recession for that country.
2. **Differing policy effects** - even when countries are closely in line, it may be possible that a single policy will have different effects on different countries. For example, a much larger proportion of people own their own house in the UK than many other European countries. This makes the UK much more reliant on mortgage lending. A change in interest rates then, may have a different effect on the UK from other countries.
3. **Shocks** - external economic shocks may have an adverse impact. An example could be a rapid rise in oil prices (as happened in the 1970s and 80s and 2020's). This may affect different countries in different ways, depending on how reliant they are on oil. The UK produces its own North Sea Oil and so may be affected differently to Luxembourg, which does not!
4. **Transition costs -** moving into a single currency economic union involves short term transition costs (which would disappear once the new currency was fully established). For example, new money has to be issued and the old withdrawn, vending machines have to be adapted to take the new coins,and foreign exchange departments may shrink in size in some financial institutions.