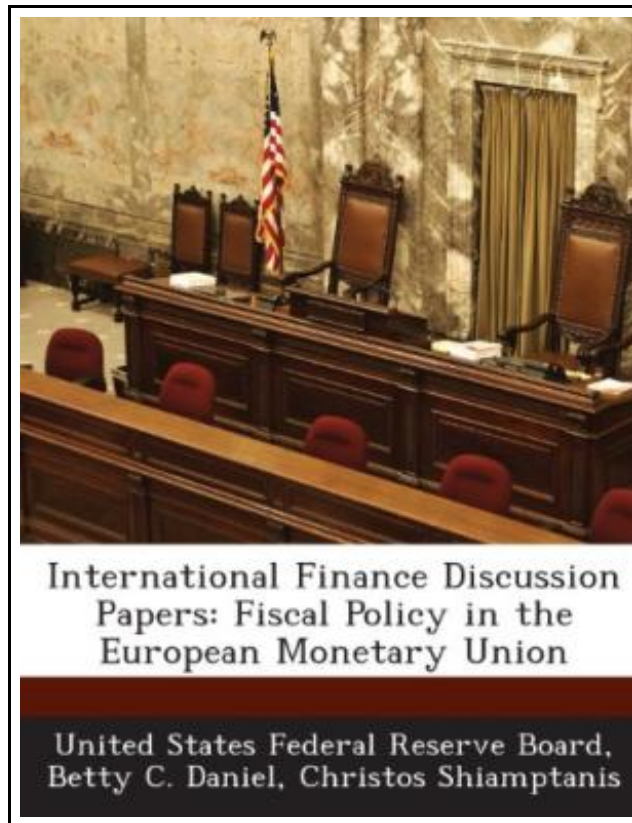


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Bibliogov, United States, 2013. Paperback. Book Condition: New. 246 x 189 mm. Language: English . Brand New Book ***** Print on Demand *****.A country entering the EMU surrenders its monetary policy, and its debt becomes denominated in terms of a currency over which it has no direct control. A country's promise to uphold the fiscal limits in the Maastricht Treaty and the Stability and Growth Pact is implicitly a promise not to allow its fiscal stance to deteriorate to a position in which it places pressure on the central bank to forgo its price level target to finance fiscal deficits. Violation of these limits has raised questions about potential fiscal encroachment on the monetary authority's freedom to determine the price level. We specify a simple model of fiscal policy in which the fiscal authority faces an upper bound on the size of its primary surplus. Policy is determined by a fiscal rule, specified as an error correction model, in which the primary surplus responds to debt and a target variable. We show that for the monetary authority to have the freedom to control price, the primary surplus must respond strongly enough to lagged debt. Using panel techniques that allow for unit roots and for heterogeneity and cross-sectional dependence across countries, we estimate the coefficients of the error correction model for the primary surplus in a panel of ten EMU countries over the period 1970-2006. The group mean estimate for the coefficient on lagged debt is consistent with the hypothesis that the monetary authority can control the price level in the EMU, independent of fiscal influence.



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