

# A single european currency

[Parts of the World](#), [European Union](#)



The questioner shown in Appendix 1 has 14 questions where the first two questions looked at what kind of memory was prevalent among the participants focusing on the dates immediately to the new euro introduction. Then the other questions try to find out how the participants remembered the prices, whether they were calculating or were using memory. Then the questions advance into finding how often the participants go to the movies, as well as their being accustomed to using the euro vs. the lire, in such a way that it will be possible to show how they were able to convert from the lire in thinking in terms of the euro.

Also the questioners tried to find out what the participants attitude towards the euro was before and after the introduction, at the same time how they are perceiving the price change if there is any. Another interesting aspect included in the survey was some participants were asked to express the pre-euro price in euro instead or the lire, a different approach from the standard questioners. The researchers claimed this enabled them to check if using the euro to express price that were in lire enabled them to see the difference between the old price and the current one.

Accordingly, to ascertain the reliability of the survey, the doctoralpsychologystudents who administrated the survey on behalf of the researchers on May 2006 put all the necessary precautions in place. The median price the researchers arrived at in the middle of December 2001 was 14, 000 lire that led to the conclusion of the correct memory for the pre-euro was 13, 000 lire that was applicable for at least four years and 14, 000 lire was the last price in lire at the time of the changeover.

When looking at the discrepancy Figure 1 compares what the percentage was by recalling the price used shown in dark histogram and the percentage of cinemas where that price actually was applicable in December 2001 shown in light histogram. The 13, 000 and the 14, 000 lire price was what eight per cent of the respondents came up with and those answers are possibly correct. Close to 56 per cent of respondents claimed the prices to be 10, 000 or lower, but such prices were not applicable in the months before the introduction of the euro. Figure 1 Recalled vs. Actual prices. Source Bank of Italy

Figure 2 Recalled Pre-euro Prices Compared to Actual Prices Source Bank of Italy Interesting aspects of memory inaccuracy observed were: • There was not a big difference among those who were able to recall prices correctly and those who had somewhat vague memory; • Those who get the 2002 wrong as the year of the changeover had a less accurate memory than those who knew the year correctly; • Those who claim to always think in euro reported the price to be higher and theirs were more correct than those who claimed not to think often in euro or they did not convert to euro;

- Those who are frequent moviegoers were more accurate about the price than those who went once or less times a month. The next table shows the individuals' memory habits about mental conversion and how frequently they go to the movie. Another addition here is mean and standard deviations are included, as well as there is t-test to see the differences between the means. Source Bank of Italy When comparing this table with what is in Table A1, it is possible to see the recalled price and what the respondents thought to be the inflation materialized after the changeover.

According to the researchers they could not conduct statistical test because of the asymmetric distribution of the answers where it was only 12 participants who claimed the price had fallen, was unchanged or had gone up slightly. To overcome this problem and conduct statistical analysis, they grouped the respondents according to their answers where, for example, starting from fall, remained unchanged, rose slightly, moderately, and a lot were given a score from 1-5.

To arrive at how persistence the respondents were the researchers subtracted the price of the recent period from those of the previous two years from the changeover. Table 3 shows what the approximate finding was. Source Bank of Italy Consequently, the finding was that those who indicated there was lower inflation were much higher from those who claimed to have perceived a high level of inflation that approaches the score of ten.

The number of those who claimed the increase is the same for the same periods that is for the pre and post-euro is lower showing their perception is further away from the real price. Table 4 show the difference between the price recalled and the perceived inflation. Source Bank of Italy The conclusion the researchers arrived at is that the respondents have distorted memories and have failed to compare present prices with what they were before the introduction of the euro.

It is difficult to blame the distortion on the time lapsed from 2001 to the time they conducted survey in 2006, because the survey for the 2003 that was not important to show here because of the similarity showed that there was a similar lack of accuracy in the perception of the kind of inflation that had

been prevalent. Therefore, what outsiders could surmise from this is people might have not really felt the changeover or it had not upset their economical well being, as they are doing what they were doing without feeling any economic hardship.

This reflects that wherever the euro had replaced local currencies the effect must have been the same. Conclusion Arriving at a conclusion might not avail a clear-cut solution for the problem, where on the one hand there is fear if Britain is going to lose somehow if she does not join the union, whereas there is also a strongly held opinion that it should come up with some kind of solution that should avoid an extreme leaning to one side that will have a negative ramification in the long run <sup>6</sup>.

<sup>6</sup> HM Treasury 2003 Statement by the Chancellor of the Exchequer on UK Membership of the Single Currency, [www.hm-treasury.gov.uk/documents/international\\_issues/the\\_euro/assessment/euro\\_assess03\\_speech.cfm](http://www.hm-treasury.gov.uk/documents/international_issues/the_euro/assessment/euro_assess03_speech.cfm) It is possible to start by asking if EU itself is ready where before looking at a nation such as Britain that might not lose a lot by not joining the single currency simply because of the accumulated expertise it had in running an efficient economy and a nation for that matter.

Therefore, the coming together of many nations that are at various levels of their developoment and certainly not at the level where Britain is, in areas that were discussed earlier where she has the advantage of her prosperous financial sector, there is manufacturing, agriculture is not behind any of the other nations, and overall it had the added blessing of being the only nation that is exporting oil. What this shows is Britain might be a valuable addition

to the union than it is the other way around where her joining the union as full participant will introduce drastic changes in the euro zone.

As far as trade is concerned, there is a surplus and it is more of a developed market for the other member nations that can absorb more of their export than the nation herself exports to the member nations, showing that it is the union that will rip advantages by keeping the existing trade arrangement in whatever possible form it is. However, what is taking place among the other nations led by nations such as France and Germany that are comparable to Britain in their development and the size of their economy, the measure they took had started stimulating trade.

To further stimulate trade it might be essential to have a single currency, a central bank that is in charge of the fiscal policy, interested rates, exchange rates, if not yet the likes of taxation, medic care, education, defence and the like could also be on the table. When the federation becomes very practical in the future, it is possible to add more functionality. The question again here is, which of these functionalities would become vital for Britain in such a way that it could cost her dearly if she does not do something now?

There are also key areas such as where there should be some kind of homogeneity of inflation rates and that should include interest rates. Exchange rate has come to rest since the introduction of the euro. Accordingly, there are areas highlighted such as the different standard of living that will take time to be at the same level, the unemployment is also one of the things the British are guarding with caution since it is the lowest in the region. Could there be a possibility that the free labour movements with their constraints and the other measures taken could affect it inadvertently?

It is also important to look at the business cycle where it is only a few of the member states that could compare themselves to Britain (Artis and Zhang 1995). Therefore, until some kind of measures is taken the recommendation calls for some kind of effort to at least harmonize the nation's economic activity with the euro zone, because the possibility of a wider market is even if it might take some time to materialize is on the making, where working for its being practical might be in the advantage of the British.

The future advantage and payoff nations such as France and Germany could rip might originate from the huge market they are trying to create where they would be in a position to introduce any kind of condition that is in the interest of those that are members. Although, that does not threaten the economic well-being of Britain, as she has the open sea as a priority, maybe the Artis, Michael, and Wenda Zhang, 1995, " International Business Cycles and the ERM: Is There a European Business Cycle?

" CEPR Discussion Paper No. 1191 advancing of the zone might avail some advantage in the future, and at any cost it is better to have an advanced Europe than otherwise. Other than that there are sources from Britain that advocate a single currency will not be the answer for the existing heterogeneity, divergence and the market variation that is prevalent in the British as well European economy.

They claim that losing a currency is so crucial for an advanced economy such as Britain, where it will be much better to work with the euro zone without losing one's currency. When seen economically it is true, but if Britain can blend in the euro zone similar to what is happening in North America could become practical in the long run, but that will take time and languages and

customs barrier might not make it workable as it is in the North America region.

When looking at the intricacy of the overall European economy, it is possible to say the euro zone has a lot of work ahead of it because it could become bulky and unless there is some robustness, the anticipated market might not materialise in the exact manner everyone wants to be. Therefore, there is some truth if the role of the bigger economies such as France and Germany are playing is more than the economical well-being of the zone. All it takes in the part of Britain is to visualize that drive and find a way that it can contribute to the future of the region.

Otherwise, still there is no convincing reason an advanced economy such as Britain should join a euro zone that still has some distance to cover. The economic well-being of Britain might not be affected by not joining the single currency, but at the same time even if there a deficit, it does not do any good if she loses more portion of the market share she garners from Europe, a point that might make the nation reconsider some of the measure it is taking, because it seems that she needs at least that much where the status quo should remain as it is.

## REFERENCE

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