

Should the UK Join the Eurozone?

Advantages

1. Eliminates currency conversion costs
2. Eliminates exchange rate volatility between UK & Eurozone
3. Price transparency will reduce prices
4. Foreign Direct Investment Inflows encouraged (1 & 2 above)
5. Increased trade (1 – 4 above) allows for economies of scale & more competitive production
6. No 'devaluation option' imposes stricter anti-inflationary discipline on firms, which increases long run competitiveness
7. Political union moves closer:
closer economic ties make European war less likely

Disadvantages

1. **Transition costs** (changing coin machines etc)
2. **Sterling may swing more against US dollar**
3. **Asymmetric shocks could destabilise the macro economy:**
 - a. loss of national control over monetary policy (one interest rate will not 'fit all')
 - b. loss of national control over fiscal policy (Stability & Growth Pact)
 - c. wages may not be flexible downwards (trade unions and national minimum wage)
 - d. labour may not be mobile internationally (cultural & language barriers)
 - e. fiscal transfers within Eurozone are resented
4. **Lack of convergence in housing market**
UK consumers more sensitive to interest rate changes
5. **European Central Bank targets lower inflation** (deflation risk)
6. **Political union moves closer:**
loss of national independence stirs up xenophobia

