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Discussion Papers

No. 197.

Sterling volatility and European Monetary Union

by Christopher Taylor

Sterling has strong affinities with both the Deutsche mark (now euro) and the dollar. In principle the D-mark should show comparable affinities, but in its case they have been eroded by the long process of monetary integration in Europe, which has led to its 'polarisation' against the dollar, and thence high volatility in the DM/\$ exchange rate. By joining EMU, the UK would escape exchange-rate volatility on trade with the euro zone but would suffer a marked increase in volatility on trade with the rest of the world. If sterling's experience since leaving the ERM is a guide to its future outside EMU (if it has one), and if the euro emulates the D-mark's volatility since that time, counterfactual comparisons suggest that joining EMU would reduce UK effective exchange-rate volatility by around two thirds on a trade-weighted basis, but by only a third or less on a payments-weighted basis, which arguably captures sterling's split affinities better.

No. 198.

Investment and uncertainty in the G7

by Joseph P. Byrne and E. Philip Davis

In this paper we assess the impact of a comprehensive range of macroeconomic and financial measures of uncertainty on business investment in the major industrial countries using Pooled Mean Group Panel Estimation. We discover a significant negative long run effect from both nominal and real exchange rate volatility using a GARCH (1,1) approach on aggregate investment for the G7. This is also found in poolable subgroups including all four larger European countries. Results for an adverse impact of uncertainty on investment are also found for volatility of long rates in recent years but not for inflation, share prices and industrial production. The results imply that to the extent that EMU favours lower exchange rate and long interest rate volatility, it will also be beneficial to investment.

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Forthcoming events at the National Institute

13 September 2002 • The role of efficiency as an explanation of international income differences

A conference to be held at the National Institute based on a research project currently being conducted by NIESR and funded by the ESRC. Speakers will include Philip Stevens, NIESR, and Richard Kneller, University of Nottingham Centre for Research in Globalisation and Economic Policy.

19 November 2002 • Productivity and performance in the provision of public services

A major one-day conference to be held at the British Academy. Speakers to include Mary O'Mahony, NIESR.

23 January 2003 • A biological and socio-economic assessment of the consequences of an ageing population

A major one-day conference to be held at the British Academy, organised by NIESR and the Institute of Psychiatry, King's College London. This conference will begin with an account of current research into ageing processes. This will be followed by a survey of current epidemiological trends and their social and budgetary implications. This will then lead into a specific account of Alzheimer's Disease and an assessment of different methods of paying for long-term care of the elderly. Speakers will include Professor T. Kirkwood (University of Newcastle), Professor T. Meade (London School of Hygiene and Tropical Medicine), Professor M. Knapp (Institute of Psychiatry), Dr E. Grundy (London School of Hygiene and Tropical Medicine), Professor S. Lovestone (Institute of Psychiatry), Professor J. Sefton (NIESR and Imperial College, London) and M. Weale (NIESR).

To register for any of the above events, please contact Helen Barnes at the National Institute (e-mail address: h.barnes@niesr.ac.uk or telephone 020 7654 1901). Further details are available on our website: www.niesr.ac.uk/event/event.htm



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Aims and Scope

The *Review* is the quarterly publication of the National Institute of Economic and Social Research – one of Britain's oldest and most prestigious independent research organisations. The Institute's objective is to promote, through quantitative research, a deeper understanding of the interaction of economic and social forces that affect people's lives so that they may be improved. It has no political affiliation, and receives no core funding from government. Its research programme is organised under the headings of Economic Modelling and Analysis; Productivity; Education and Training and the International Economy.

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