

Does common currency promote countries' growth via trade and tourism?*

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Abstract

The main aim of our investigation is threefold. First, the effect of common currency on inbound tourism and trade flows is obtained by estimating a gravity equation for as large panel dataset which includes 179 countries as destination and the 30 OECD countries as origin for the period 1995-2002. Second, the effect of both international tourism and openness to trade on the economic growth of the destination countries is estimated considering a standard convergence growth model. Third, using the results from the two previous stages we calculate the potential effects of the common currencies on tourism, trade and income. Results suggest that currency unions have a positive effect on economic growth not only via international trade but also via promoting tourist arrivals.

JEL codes: F15, F33, L80

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