- Places within the area can transfer financial capital without need for monetary policy
- Ideally it should be easy to transfer financial capital

- **High Trade Integration**
  - Common currency reduces costs of trade within region
    - No transaction costs
    - No fluctuation in exchange rates
  - Ideally want to do a lot of trade with other countries of the same currency
  - True for the Eurozone
- **Diversification in production and consumption**
  - Diverse economy reduces impact of sector-specific shocks
  - Allows the economy to self-correct without as much government intervention
  - This is the strongest characteristic of an optimal currency that the Eurozone qualifies for.
- **Similar interest rates and Economic cycles**
  - Countries that have interest rates and similar economic cycles will benefit from common currency
    - i.e. strong-weak economic growth at same time
  - Problematic when one part of currency area is growing while another is contracting
- **Fiscal Integration**
  - Allows for redistribution within area across countries
- **Political Integration**
  - Helps many factors such as fiscal integration and labour mobility
  - This is increasing in the eurozone
- **Symmetric macroeconomic shocks**

Debt Challenges for Euro Area

- ECB, not Ireland, prints money
- Ireland's only option for reducing debt is to default
  - If defaulting is even a slight option, then the price of debt goes up
- Low default likelihood for Euro countries (except Greece)
- Bond buyers may expect other Euro countries to bail out high-debt countries so bond rates for low-debt Euro countries may also go up

Fiscal Prudence in Euro Area

- Because one country's high debt can hurt all Euro countries, each country has incentive to keep debt manageable in other countries
- Difficult to do with separate government budgets