Exchange Rate Regimes, Trade, and the Wage Comovements

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Abstract

The introduction of exchange rate regimes into the standard Ricardian model of trade implies stronger positive wage comovements between trading countries which fix their bilateral exchange rates. Regression results based on data from OECD countries between 1973 to 2010 suggest that countries in the European Monetary Union experienced stronger positive wage comovements with their main trade partners. In comparison, the positive wage comovements between countries engaged in non-currency-union pegs were weaker.

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