Exchange Rate Regimes, Trade, and the Wage Comovements

Yoshinori Kurokawa[*], Jiaren Pang[†], and Yao Tang[‡]

April 20, 2011

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.

JEL classification: F1, F3
Keywords: fixed exchange rate regime, currency union, trade, wage comovements

[*]Department of Economics, University of Tsukuba, 1-1-1 Tennodai, Tsukuba, Ibaraki 305-8571, Japan. E-mail: kurokawa@dpipe.tsukuba.ac.jp.

[†]A. B. Freeman School of Business, 7 McAlister Dr., Tulane University, New Orleans, LA 70118, USA. E-mail: jpang@tulane.edu.

[‡]Department of Economics, Bowdoin College, 9700 College Station, Brunswick, Maine 04011-8497, USA. E-mail: ytang@bowdoin.edu.