

## **IMPACT OF SINGLE CURRENCY ADOPTION ON TRADE FLOWS: THE PANEL DATA EVIDENCE**

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### **ABSTRACT**

In this study, we investigate the trade effects of the euro on European Economic and Monetary Union (EMU) countries from 1994 to 2011 by adopting the gravity model of international trade. We implement panel data econometric technique of Hausman and Taylor (1981) estimator to characterize bilateral trade and export flows. The results of Hausman and Taylor estimator exhibit that the bilateral trade and exports of the EMU economies increase by about 12% and 7%, respectively, when both the countries use the euro as its currency. The reported results have important policy implication for the countries considering joining the euro.

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