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The Cost of Achieving Inflation Convergence in Monetary Integration: A Glimpse at Inflation in High Inflation Countries of the European Monetary Union

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**THE COST OF ACHIEVING INFLATION CONVERGENCE IN
MONETARY INTEGRATION:
A GLIMPSE AT INFLATION IN HIGH INFLATION COUNTRIES OF THE
EUROPEAN MONETARY UNION**

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The European Monetary Union established in 1992 was a part of an effort to bring economic integration to new levels by creating a common currency area for Europe – a monetary union that would abolish transaction costs of converting one European currency to another, as well as eliminating exchange rate variability and uncertainty among traders and investors. Since the formation of the European Monetary System in 1979, lowering inflation had become the main monetary policy priority. My research centers on the Philips Curve, which implies that decreasing inflation rates would always be coupled with increasing unemployment rates. This study uses the trends of inflation and unemployment in these countries to test the validity of the Philips Curve. Regression analysis found that inflation had a significant inverse relationship with unemployment. Further analysis found that the institutional effort towards disinflation during the implementation of the European Monetary System was a major cause of increasing unemployment in the 1980s –1990s.