

Modeling A Potential GCC Single Currency

Ghada G. Mohamed ,Manuchehr Irandoust

Abstract

The paper explores different views of regime choice and investigates theoretically and empirically the feasibility of a potential monetary union among the six members of the Gulf Cooperation Council- the United Arab Emirates, the State of Bahrain, the Kingdom of Saudi Arabia, the Sultanate of Oman, the State of Qatar, and the State of Kuwait. The theoretical model suggests that the optimum foreign regime needs to maximize oil revenues under the assumptions of internal and external balances. This is proved to occur at the possible maximum expected foreign-exchange rate or at the minimal level of uncertainty and volatility in foreign exchange rate markets. Calculations using a calibrated model show that the proposed monetary union is likely to yield economic benefits for the GCC countries if they adopt a foreign regime pegged to SDR.

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