

ADOPT THE EURO? THE GME APPROACH

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The objective of this paper is to employ new methodologies to evaluate the degree of financial integration achieved in the European Union countries, dividing it in three groups, according to the current situation in respect to the adoption of the euro. The analysis, focus on the three interest parity conditions (covered, uncovered and real).

Besides the importance of comparing the situation of the new members of the European Union with the old member states, to observe the conditions of an eventual decision of the new members to adopt the euro, it is interesting to analyse the performance of Generalize Maximum Entropy when compared with Ordinary Least Squares.

Generalized maximum entropy has the ability to estimate the parameters of a regression model without imposing any constrains on the probability distribution of errors and it is robust even when we have ill-posed problems, namely with very small samples and non-stationarity (Golan *et al.*, 1996; Campbell and Hill, 2005, 2006).

Keywords

Financial integration, Generalized Maximum Entropy, time series analysis, ill-posed problems.

References

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