The IR Seminar in Empirical Economics

We would like to invite you all for the **21st** IER seminar series in empirical economics that will be held at the library of the Institute of Economics at Šancová 56, Bratislava on **January 22nd, 2015 at 2.00 p.m**. The speaker will be **Dr. Mária Širaňová** (Institute of Economic Research, SAS, Bratislava)

on: **Is Dominance of the US Dollar Over Soon? Empirical Investigation by Dynamic Panel-Data Model.**

Extended Abstract:

One of the hot issues in the field of international finance is the question whether the US dollar is about to lose its long time sustained dominance in favor of either the common currency, euro, or one of the currencies of emerging economies such as the Chinese renminbi. This question is becoming more important as the credibility of the euro is shaking under the influence of the Eurozone debt crisis and the Chinese renminbi is gaining on strength due to growing influence of China in international trade and international financial relations. Moreover, loss of the dominant position of the US dollar in international monetary system may have severe consequences not only for the US economy but also for countries linked to it by any form of fixed or semi-fixed exchange rate regime. The question regarding the position of the international currencies in the world economy should not be put aside but has to be dealt with more thoroughly as the consequences for all the economies involved could be substantial.

Relating to all the questions raised above, this research makes and endeavor to contribute to the ongoing discussion in four different ways.

Firstly, most of the literature focuses its attention on examining the status of the top two or three currencies without taking into account possible growth potential of the currencies issued by developing countries. By utilizing a broader set of currencies we attempt to bridge the gap currently present in the economic literature and provide a more comprehensive view over the structure of the international monetary system in terms of international currencies' position in it.

Secondly, the economic literature provides us with sufficiently complex theory of the international currency in terms of its functions and fundamental factors that affect its status in the international monetary system. However, the empirical investigation of the accuracy of these theoretical assumptions is rather scarce. Thus, in this research we aim to deliver some answers regarding the role of fundamental factors listed in the theoretical literature and to estimate magnitude of their influence on the status of international currencies in the international monetary system.

Thirdly, we separately analyze possible role of the institutional factors, such as the central bank independence or judicial system, in the process of currency internationalization. Although discussed in theoretical literature, the influence of legal and political forces has not been empirically tested before. With this research we aim to close this gap.

Lastly, the procedure utilized in this paper allows us to quantify growth potential of particular currencies with respect to their fundamentals and therefore partially provide an answer to the question of possible future currency composition of international monetary system.

In line with Chin and Frankel (2005, 2008) and Chen (2009) we use multinominal logit model for panel-data estimation but update it by Arellano-Bond dynamic panel-data model that is more suitable for dynamic models tested on datasets with small number of time observations but rather large number of cross-country observations.

JEL classification: F31, F33, F37
Key words: dynamic panel-data model, currency internationalization, Chinese renminbi