larger profit margins into their pricing, to reflect the greater exchange rate uncertainty. Lastly, it could be that our current level of econometric sophistication does not allow us to uncover these volatility effects.

On a macroeconomic level, as the Economist (1997) has pointed out, EMU could make other exchange rates more volatile, if it is assumed that an equal amount of exchange rate trading is concentrated on fewer exchange rates. In addition, European policymakers currently pay close attention to exchange rates against the US dollar, as dollar movements tend to affect European exchange rates differently, implying bilateral movements which then have an impact on ERM participants. With a single currency, European policymakers may decide to pay less attention to US dollar rates, thereby intervening less and permitting a greater degree of volatility. Recent research by Martin (1997), however, suggests the opposite - he concludes that the US dollar-euro exchange rate should be less variable compared with past variability of the US dollar-DM exchange rate. According to Martin's model, the decrease in the volatility of the euro should be more important the larger the size of EMU. Clearly, these results are extremely scenario-dependent, so are taken solely as an indication of the lack of consensus on this issue.

As part of the third stage of EMU, the European Commission proposed a revamped ERM (already nicknamed ERM2) for Member States that remain outside the EMU "core" (see Commission of the European Communities (1996)). A confirmatory decision on the ERM2 was taken in Amsterdam in June, 1997, and there is now a commitment to voluntary membership of this mechanism with a +/-15 percent margin of fluctuation (which is the current width of the fluctuation band) for those Member States not in the first wave of EMU participants. Although the ERM2 will most certainly be a pre-requisite for EMU membership, there is unlikely to be any significant reduction in exchange rate volatility for Member States that participate in the new mechanism.

If EMU leads to more investment because of a reduction in uncertainty caused by elimination of exchange rate volatility, then this could be growth-enhancing. Once again, though, there exists little in the form of empirical evidence to determine the direction of these effects (see Leahy and Whited (1995) for a survey with respect to uncertainty, and with respect to exchange rate volatility, Campa and Goldberg (1995)). Campa and Goldberg (1995) only find a weak, and generally insignificant effect of exchange rate volatility on investment.