

Volume 28, Issue 6**Research Announcement****Endogenous OCA Theory: Using the Gravity Model to Test Mundell's Intuition**

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This paper presents an empirical assessment of the endogenous optimum currency area theory. This study relies on the original intuition developed by Mundell in 1973. The gravity model is used to empirically assess the effectiveness of the convergence criteria by examining location specific advantages that guide multinational investment within the European Union. A fixed effects model based on a panel data of foreign direct investment (FDI) flows within the EU-15 shows that horizontal investment promotes the diffusion of the production process across the national border. Specifically, the examined Maastricht criteria suggest convergence in interest rate, government fiscal policy, and debt play a significant role in attracting multinational investment.

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