In order to assess the symmetry in the nature of structural shocks for a bloc of countries to form a currency union, long-run identifying restrictions to simple bivariate models are often used. This study attempts to assess the reliability of the estimated structural shocks produced from applications of these kinds of models by looking at their consistency in representing the designated shocks. The case examined covers some countries in the Southeast Asian bloc. The finding suggests that the commingling shocks problems exist. Exercise using larger models and higher frequency data is then advisable.

1. Introduction

The issue of financial integration in East Asia has received growing attention in past decades. The 1997 Asian financial crisis intensified the issue, and led to calls a common currency and coordinated exchange rate system in the region. These developments have revived the question of whether or not the East Asian region satisfies the requirements set out in the theory of optimum currency areas (OCA).

According to this theory, countries that seek a common monetary arrangement should meet some necessary level of political preconditions as well as standard economic criteria. The necessary political preconditions include a readiness to establish a transnational institution capable of lending credibility to the commitment to jointly defend the currency pegs of the participating countries. The general standard economic criteria for OCA are as follows: (i) greater intra-regional trade; (ii) symmetry in the nature of economic/structural shocks; and, (iii) similarities in terms of past macroeconomic policies, stage of development and financial systems.

As far as the standard economic criteria for an OCA are concerned, considerable work has been done to assess the symmetry of structural shocks. Since structural shocks are generally not observable in published data sets, they are usually estimated using long-run identification restrictions such as those suggested by Blanchard and Quah (1989). The objective of this study is to assess the reliability of these estimated structural shocks (supply shock in particular) produced by the long-run identifying restrictions for some Southeast