# Transition of Italy's Economy from Lira to Euro

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***Abstract***

*Adoption of euro has resulted in to loss of policy autonomy for the member nations on one hand, but on the other hand it was expected that it would result into reduction in transaction costs of multiple currencies, reduction in exchange rate volatility, prevent wasteful competition. Italy is a member nation with inherently weak and unstable political system, and there is significant evidence that political instability negatively influence the economic growth of a nation. It is expected that euro has worked as an effective shield against the financial turbulence and geopolitical risks for Italy. The present paper explores the cost and benefits of introducing euro in Italy using three macroeconomic factors as performance indicators, namely, annual GDP growth rates, unemployment rate, and CPI inflation rate. T-Tests were conducted to test the hypotheses for any significant difference for pre euro period and euro period unemployment rates, inflation rates, and GDP growth rates. Results show that there is no significant difference between GDP growth rate between lira and euro periods, however domestic inflation rate and unemployment rate has dropped significantly in the euro period, as compared to the Italian lira period.*

**Key Words**: Euro, Italian Lira, Optimal Currency Zone, Inflation.