

According to the European Commission (1990), closer integration leads to less frequent asymmetric shocks and to more synchronized business cycles between countries. However, for Krugman (1993) closer integration implies higher specialization and, thus, higher risks of idiosyncratic shocks. Drawing on the evidence from a group of transition countries, this paper tries to determine whose argument is supported by the data. This is done by confronting estimated time-varying coefficients of supply and demand shock asymmetry with indicators of trade intensity and exchange rates. We find that (i) an increase in trade intensity leads to higher symmetry of demand shocks: the effect of integration on supply shock asymmetry varies from country to country; and (ii) a decrease in exchange rate volatility has a positive effect on demand shock convergence. The results confirm "The European Commission view" and also the argument by Kenen (2001) according to which the impact of trade integration on shock asymmetry depends on the type of shock.