Abstract: This study examines monetary policy cooperation regimes in a New-Keynesian two-country DSGE model based on Benigno et al. (2006). Each country may have incentive to deviate from the cooperation regime to the non-cooperation regime. A cooperation regime may be endogenously sustained by a cross-country and state-contingent contract. We name such a regime the sustainable cooperation regime. It is shown that in response to a positive markup shock in the home country, the home country has an incentive to deviate from cooperation to non-cooperation. Under the sustainable cooperation, the responses of inflation and the output gap in both countries are quite different from the ones under the cooperation and non-cooperation.