

# **The Taylor rule and its impact on Swiss National Bank policy (for the period 1951 to present 2012)**

Master Thesis

In

Banking & Finance

at

Swiss Banking Institute



**University of  
Zurich<sup>UZH</sup>**

with

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# **The Taylor rule and its impact on Swiss National Bank policy (for the period 1951 to present 2012)**

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May 2013

## Abstract:

This paper is analyzing the key factors for the SNB policy to set their main refinancing rate for the time period 1951 till 2012. Hereby, the Taylor Rule model is used by central banks as a benchmark to set their interest rate. Starting with the standard Taylor Rule, the model's variables will be adjusted and updated to develop a Taylor Rule model which incorporates other factors such as unemployment, Trade and Fiscal Balance, Money Supply, Foreign and domestic Investments and the EURCHF exchange rate. By updating the model with these variables, it is achieved to model recent and historical economic and political shocks which are not represented in the standard model. Furthermore, from a statistical point of view the correlation among the variables is crucial for robust results. In addition, the paper explores the basic economical developments in Switzerland for the given time period and how these are transferred into the tasks and actions of the SNB. Hereby, SNB's actions and responses are a key to understand the development of the recent crisis. In the end, the resulting updated Taylor Rule models should be representative for the optimal setting of the interest rate by the SNB. By comparing the Taylor Rule's interest rate and the actual SNB's interest rate, it can be conclude that the difference between both interest rates patterns is rather small and the SNB used the Taylor Rule as a benchmark for their interest rate. Further, the paper provides a better understanding of the critics of the SNB policy and gives new dimensions in understanding their comments.