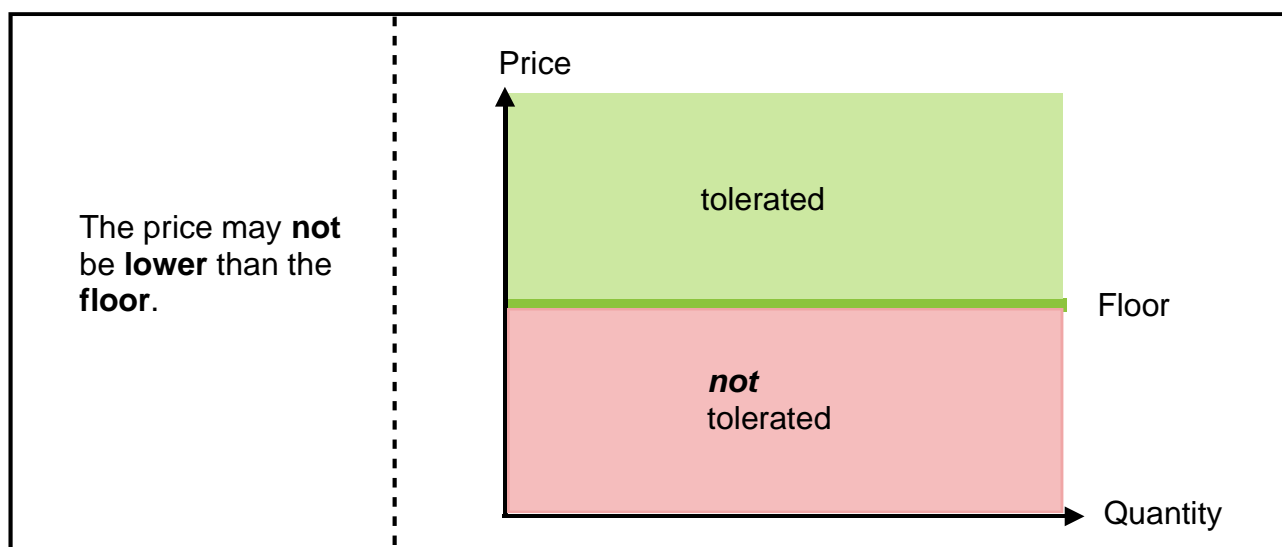


Are Objectives of Exchange Rates Floors or Ceilings? the Swiss Example

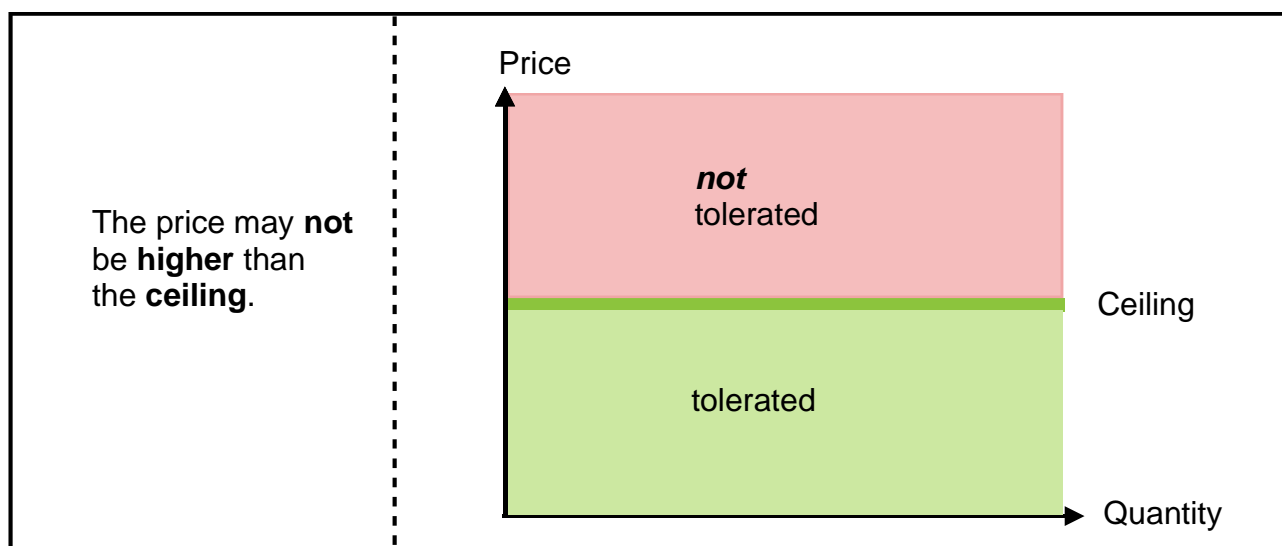
1 On 6th September 2011 the **Swiss National Bank** (SNB) set a **minimum** exchange rate at Swiss Francs (CHF) 1.20 per Euro¹. In contrast to that, **'The Economist'** called the "minimum" exchange rate a **ceiling**². Is such a "minimum" exchange rate a **floor** (minimum price) or a **ceiling** (maximum price)?

2 Floor and ceiling in general

21 Floor



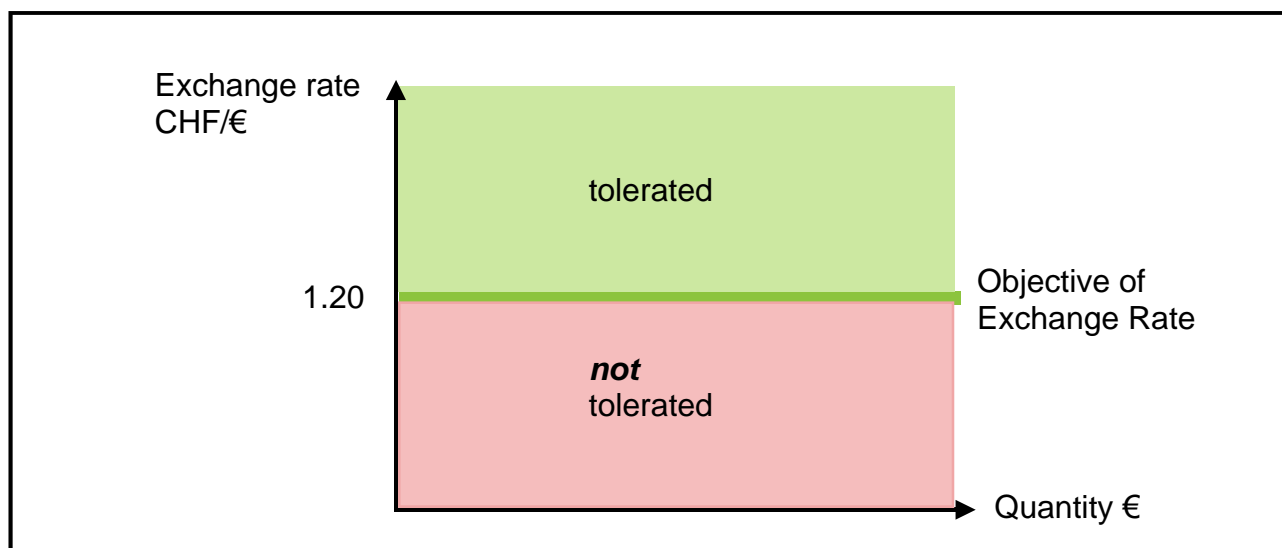
22 Ceiling



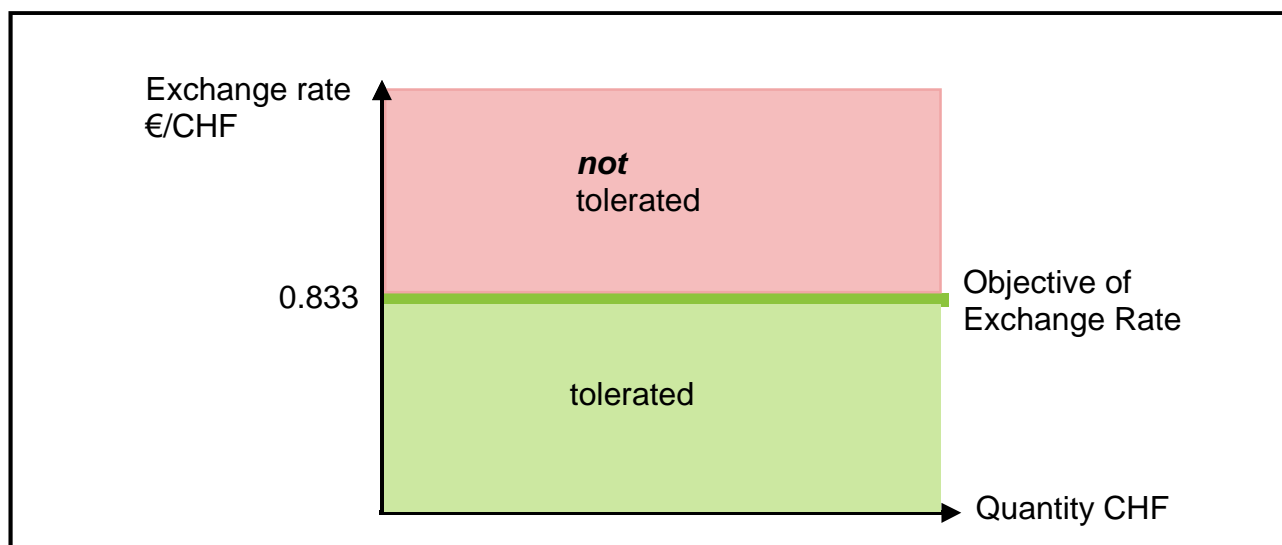
1 Press release of 6th September 2011 by the SNB

2 "Francs for nothing", 10th September 2011 (www.economist.com)

3 The **SNB** does not tolerate a CHF/€ exchange rate below the minimum rate at CHF 1.20. Therefore, the SNB defines the exchange rate as follows: € 1.-- = CHF x. Thus, a minimum price or **floor** exists:



4 Why does 'The Economist' assume a ceiling? In contrast to the SNB, the Economist uses the exchange rate the other way round: CHF 1.-- = € x. Thus, the SNB tolerates an exchange rate of €/CHF at 0.833 (1 : 1.2) or less. Under these circumstances, a **ceiling** exists:



5 Conclusions

Whether in the Swiss example a floor or a ceiling exists, depends on the exchange rate used:

51 **Floor** if the exchange rate is quoted as follows: € 1.-- = CHF x

52 **Ceiling** if the exchange rate is quoted as follows: CHF 1.-- = € x