

3. What role may strategic hedging play in the success of firms in euro zone countries?
4. Are fixed or floating exchange rates better for the euro zone countries?
5. Will the value of the dollar continue to be a debate with regard to foreign exchange?

CLOSING CASE

Ethical
Dilemma



The Swiss Franc: A Currency from Where?

Situated in the middle of Europe, Switzerland enjoys splendid isolation politically. Unlike many non-EU member countries eager to join the EU, Switzerland does not bother to apply. Economically, the Swiss economy is closely integrated with its European neighbors—60% of its exports go to EU member countries. While the hoopla associated with the successful launch of the euro a decade ago has been replaced by the recent pessimism associated with the euro mess, Switzerland can proudly point to its Swiss franc as a rock-solid currency.

Known as a “haven currency,” the Swiss franc strengthens when US stock prices crash; when bond prices in Greece, Italy, and Spain rise; and when the euro takes a beating. On one of the most stressful days in recent history, September 11, 2001, the Swiss franc rose by a remarkable 3% within two *hours* of the first plane crashing into World Trade Center.

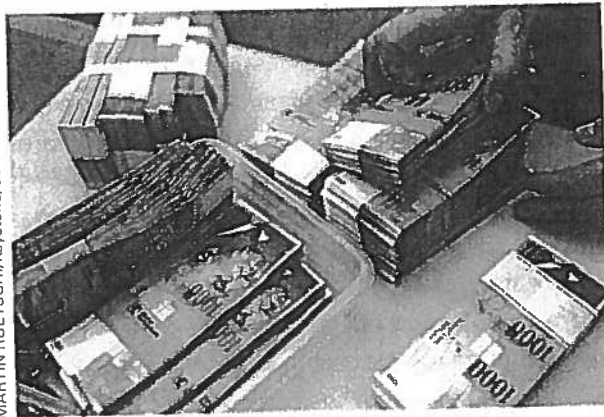
But here is a catch: To Swiss exporters, service providers catering to international tourists, and employees whose pay is cut or whose jobs are lost, the Swiss franc is actually a “currency from hell.” Between 2010 and 2012, the Swiss franc appreciated 25% against the euro. “If you have loads of euro sales and lots of Swiss franc costs, you’re getting killed,” noted an expert. “It is a nightmare for everybody,” noted another expert, “We have to adapt.” Mopac, a maker of food packaging materials, cut wages by 10% for its 260 employees in 2011, thanks to unfavorable foreign exchange movements. The firm adjusted wages every three months, depending on the exchange rate. The union protested, by arguing that “exchange rate fluctuations are a risk

that should be taken on by the company’s owner.” The owner responded, “If we hadn’t cut wages, we would have had to move our production to the euro zone”—and most jobs at Mopac in Switzerland would be lost.

Prior to the recent spike, Swiss prices had already been hair-raisingly expensive. Now they became worse. A Big Mac in 2012 cost \$6.81—the most expensive in the world (see Figure 7.3). The Swiss economics ministry commissioned a study that compared a standard Alpine skiing holiday in a medium-class hotel in the Swiss Alps versus in the Austrian Alps—Austria turned out to be one-third more price-competitive than Switzerland. For example, a regular room in a three-star hotel in Zermatt, where guests can view the spectacular, 4,478-meter (14,692-foot) Matterhorn peak from their balconies, costs \$350 a night. While Switzerland still attracts a large number of visitors, an untold number have opted for vacations in Austria, France, and Italy, which also offer beautiful Alpine mountain scenery, excellent skiing, and other enticing tourist attractions.

When visitors do come, they spend less in Switzerland. A saleswoman at the famous Zett Meyer watch store on Zurich’s Bahnhofstrasse sensed this when shoppers from abroad pulled out their phones. “Some customers come in with prices saved on their cell phones to compare them with ours,” she said. For a TAG Heuer watch that cost \$12,930, “even when we give them 10% off, it’s still cheaper in their home country.” In another example, Chinese tourists often look for Chinese restaurants, both for the more reasonable prices and for the more

familiar dishes rather than the more “exotic” Swiss diet heavy with cheese and cream—two ingredients that the Chinese never use in their cuisine. Stepping out of Geneva’s train station, a group of them found a Chinese restaurant, Le Mandarin. However, they were shocked to find that the cheapest dish—a bowl of Beijing street noodles (not even fancy Singapore or Shanghai noodles)—cost \$32 (!). But Beijing street noodles nevertheless became the most popular dish served by Le Mandarin, according to the staff. It is not uncommon to see a table of very rich Chinese tourists (anyone from China who can afford a holiday in Switzerland has to be very rich) devouring Beijing street noodles, which is something they probably do not do either in China or elsewhere around the world. They would only do that in Switzerland.



MARTIN RUETSCHI/Keystone/Corbis

For a country of its size (a population of seven million), Switzerland has an unusual number of large multinational manufacturers, such as ABB, Nestlé, Novartis, Roche, and Swatch. These firms all engage in strategic hedging by producing and sourcing in different currency zones around the world, so they are better able to cope with the Swiss franc spike. But 60% of Switzerland’s employment is in small- and medium-sized manufacturers, retailers, hotels, restaurants, and tour operators. To them, strategic hedging is not realistic, and most of them also do not bother to engage in currency hedging or simple currency diversification—most of them refuse to accept euros. With Swiss francs in hand, they are stuck between a rock and a hard currency.

CASE DISCUSSION QUESTIONS:

1. Why is the Swiss franc a “haven currency” according to many international investors?
2. Why have the unfavorable foreign exchange movements made the Swiss franc a “currency from hell,” according to a lot of Swiss firms, managers, and employees?
3. If you were CEO of a medium-sized manufacturer in Switzerland, what are the options you may consider in response to the spike of the Swiss franc?
4. As a tourist looking to have a vacation in Europe, you are very interested in Switzerland, but you are concerned about the high prices. What other European countries would you consider?

Sources: Based on (1) the author’s interviews, (2) *Bloomberg Businessweek*, 2011, The Swiss can barely afford their currency, June 6: 20–21; (3) *Economist*, 2004, A special case: A survey of Switzerland, February 14; (4) *Economist*, 2011, Too strong for comfort, September 3: 76.

NOTES

[Journal acronyms] AER—*American Economic Review*; BW—*BusinessWeek* (before 2010) or *Bloomberg Businessweek* (since 2010); JEL—*Journal of Economic Literature*; JEP—*Journal of Economic Perspectives*; JIBS—*Journal of International Business Studies*; SMJ—*Strategic Management Journal*; WSJ—*Wall Street Journal*

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