Jean-Pierre Danthine served as vice-Chairman of the Executive Board of the Swiss National Bank from 2010 until June 30, 2015. During the first part of his mandate (2010-2012) he was in charge of markets (currency and bond trading activity) during a period of significant interventions by the SNB, particularly in the FX (foreign exchange) market. During the second phase of his mandate (2012-2015) he was in charge of financial stability, including bank regulation. During this latter period, Switzerland became the first advanced country to activate a countercyclical capital buffer. This is an important new regulatory measure proposed in the context of Basel 3.

**Goal of the Course:**

The goal of this course will be to reflect on and draw lessons from Professor Danthine’s experience at the head of the SNB over the last 5.5 years. This was an incredibly intense period that featured

- extreme upward pressure on the Swiss franc (CHF),
- multiple and varied FX interventions by the SNB to counter this pressure,
- the largest and most rapid Quantitative Easing (QE) operation in history undertaken in August 2011,
- the introduction of a minimum exchange rate of 1.20 CHF to the euro as of September 6, 2011,
- massive interventions to support this exchange rate floor (equivalent to approximately 1/3 of Swiss GDP) in the summer of 2012,
- the abolition of the floor in January 2015 with the simultaneous introduction of deeply negative interest rates (-.75% on accounts held by commercial banks at the SNB),
- the introduction of the toughest capital and liquidity regulations for Swiss SIBs (systemically important banks), and
- the introduction and activation of the CCB (the countercyclical capital buffer) and other regulatory measures to address excessive dynamics in the real estate sector.

Drawing on this unique set of events, the course will confront our theoretical knowledge of central banking with the practical challenges facing a small open economy (SOE) in the heart of Europe (but not part of the monetary union) endowed with a safe haven currency. In the process, the course will develop a view on the causes and consequences of the Global Financial Crisis, and on the regulatory approach adopted to decrease the probability and the cost of future crises. It will also consider the pre-crisis consensus concerning the uses of
monetary policy and the necessary post-crisis updates to this consensus. In particular, it will include understanding the effectiveness of unconventional monetary policies on the costs and benefits of alternative exchange rate regimes for small open economies. The very extraordinary Swiss case study will help understand key aspects of current central banking practice and the reasons for investors’ dependence on central bankers’ words and deeds.

**Course Topics:**

A listing of course topics is as follows:

1. Monetary policy before the crisis: successes and failures.
   - The Swiss monetary policy framework;
   - Switzerland’s relative economic performance.

2. The Global Financial Crisis (GFC) and the initial response of central banks.
   - The UBS rescue;
   - The Swap agreement of October 2008 between the Fed, the BOJ, BOE, SNB, ECB and BOC.

3. From the GFC to the European Debt Crisis: interconnections
   - Policy challenges for a SOE with a safe haven currency;
   - A massive QE operation with DX swaps;
   - Anatomy of an extraordinary monetary policy measure: the fixed minimum exchange rate with the euro;
   - The summer of 2012 and the risk of currency redenomination;
   - Draghi’s “we’ll do what it takes” and the force of CB’s commitments;
   - The abolition of the minimum rate and the ensuing market turmoil;
   - The risks and costs associated with a greatly expanded central bank’s balance sheet.

4. Negative interest rates
   - How and why?
   - Reflections on the effectiveness of zero lower bound policy.

5. Additional topics on central banking in the crisis
   - Quantitative easing;
   - Spillovers and spillbacks;
   - Central banks are not almighty.

6. How to end the “Too Big To Fail” phenomenon
   - Basel III and the Swiss finish (as regards UBS and CS);
   - Systemic relevance;
   - Capital and liquidity;
   - Recovery and Resolution;
   - Where do we stand? What can be achieved?

7. The notion of systemic risk and how to address it
   - Identifying and measuring systemic risk;
   - The Swiss experience with the CCB;
- The role of central banking in addressing systemic risk; alternative policy frameworks.

Following regular presentations by Professor Danthine, he will lead a discussion in seminar format.

**Teaching Materials:**

A book of readings will be available the first week of class.

**Evaluation:**

Students will be evaluated on the basis of their participation in the class discussion and of group-work (groups of 3 to 4 students) focusing on a specific question and resulting in an oral presentation or a short paper.