

Domestic and international financial integration in Switzerland, 1846 - 1893

Abstract

We use newly collected monthly discount rate data for four Swiss cities to consider Swiss financial integration over the period from 1846 until a single national discount rate was first quoted in 1893. Tests indicate four structural breaks in the dispersion of discount rates coinciding with important shifts in the domestic and international monetary system. Our analysis shows that domestic integration increased until the 1870s when international financial market turmoil laid bare weaknesses in the decentralized domestic system. These were addressed in the 1880s, in particular by unifying banknote issuance in a federal law, and integration increased again. Changes in domestic integration coincided with changes in international financial integration: The interest-rate pass-through from the Banque de France and Bank of England was strongest during the 1880s, after the members of the Latin Monetary Union adopted the Gold Standard and the Swiss free-banking system was effectively abandoned.

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