

The Effects of Changes in the Exchange Rate on Labour Supply from Abroad

Laura Hahn

November 29, 2017

Abstract

A vast literature has investigated the incentives to migrate for work reasons. However, little is known on whether exchange rates also impact the decision where to work. This study explores the effect of the exchange rate between the Swiss Franc and the Euro on the decision to commute across the border to Switzerland. As natural experiments, I exploit two unexpected and plausibly exogeneous shocks to the CHF/EUR exchange rate: First, the introduction of the minimum exchange rate of 1.20 CHF/EUR in September 2011 (depreciation), and second, the so-called "Frankenschock" in January 2015 (appreciation). I investigate how these shocks impact the labour supply from cross-border commuters as well as the costs in form of commuting distance they are willing to incur to reap the benefits from the exchange rate. Economic theory translates a shock in the exchange rate into an income shock for cross-border commuters via the channel of purchasing power, which implies that the labour supply of cross-border commuters in Switzerland should increase (decrease) when the Swiss Franc appreciates (depreciates). Preliminary results so far show no strong reaction. This suggests that also other mechanisms may be at play, such as dynamic effects or worker risk aversion with respect to exchange rate fluctuations, which influences the attractiveness of cross-border commuting.