Risk and hedging

Finance

Risk and hedging A hedge should be an investment that is made in an attempt to reduce a risk that may be associated with price movements that are adverse to an asset. A hedge normally consists of a position that is taken so as to offset a position that is related to a security. This may include a futures contract. The report will deal with Coca Cola Company.

A transaction exposure is one that is useful in measuring the changes that are prevalent in the cost of financial obligations that are outstanding before exchange rates changes. In coca cola Company, such an exposure is found in a case where the company purchases its raw materials from a foreign company. The exposure is also related to a case whereby the company borrows money in a foreign currency. Coca Cola Company usually relies on lending's from the subsidiaries that are found in other countries (Vigna, 2012).

An economic exposure is one that measures the changes in the present value of Coca Cola Company and it results from changes in the future expected cash flows that may be caused by exchange rate changes that are not expected. The exposure in Coca Cola Company mainly affects the selling price and the sales volume of the company.

An accounting exposure is used in measuring the changes that are derived from accounting as a result of coca cola Company translating its financial statements that are found in a foreign currency into a reporting currency that is single. That will affect issues such as the payment of the corporate tax incurred by the company. Coca cola company therefore hedges so as to avoid risks that are involved with foreign transactions (Murphy, 2012).

References

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