Exchange rate

Finance

Exchange Rate Risk al Affiliation) Introduction Kerr conducts business in the international market. Conducting business in the international market may involve dealing with foreign currencies, which exposes a company to risks associated with the foreign currencies (Jacque & Jacque, 1996). Kerr Inc. will lose money if the exchange rate between the U. S dollar and the Japanese Yen fluctuates negatively during the course of a transaction. In order for Kerr Inc. to mitigate the adverse fluctuations in the foreign exchange market, the company should manage the foreign exchange risk. The company can manage the foreign exchange risk by employing the following measures:

Foreign exchange contracts

Kerr Inc. may reduce its economic exposure to foreign exchange risk by using foreign exchange contracts. A foreign exchange contract will enable the company to make future transactions using the current exchange rate (Jacque & Jacque, 1996).

Diversification

Kerr Inc. can minimize its exposure to foreign exchange risk by expanding its investments to other foreign markets. For instance, the company may experience losses if the U. S dollar appreciates in value against the Japanese Yen. However, the company can recoup the losses if the U. S dollar depreciates or devalues against the currency of another country it exports to, which increases the money the company receives for the same volume of goods (Managing foreign exchange risk, 1986).

Denominate Transactions

Alternatively, Kerr Inc. can decide to accept payment for its exports in U. S dollars only. Using the U. S dollar as the only currency of transactions will enable the company to mitigate the exchange rate risk because the exchange rate between the U. S dollar and the Japanese Yen will no longer affect the transactions of Kerr Inc (Managing foreign exchange risk, 1986).

Charge More

Kerr Inc. may decide to charge more for its products in the Japanese market to carter for the foreign exchange risk. This strategy may require the company to study the Japanese Yen to determine the magnitude of the risk of exporting to the Japanese market. For instance, if the company discovers that the Yen fluctuates by about 8% annually, then it may decide to charge 8% more for its products (Jacque & Jacque, 1996). However, this strategy may fail to yield desires results if the exchange rate fluctuates more than anticipated. More so, market forces or government intervention may hinder the company’s move to raise prices for its products (Small Business - Chron. com, 2015).

References

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