

# Foreign exchange market essays example

[Business](#), [Company](#)



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## **Question 1**

Since the FX market is the most profitable markets due to high returns on investment, its expectation is to have a group of experienced brokers.

However, if these brokers do not meet the FX objective, they become non-essential. The broker may become non-essential for the FX market due to lack of knowledge and time, which expect one to know the market's role and be patient. Inexperienced brokers become non-essential to the FX market since there are unable to meet its expectation. Similarly, a fraud, which is becoming a threat in the FX market can make broker who commits fraud non-essential in the FX market. There are also effects of remaining as FX market participants. Those who remain face challenges such as lacks of transparency. This is so because the absence of a real market makes the process of price-information relationship hard to understand. They are also in a position to realize significant profit because FX market is the most profitable and liquid financial exchange in the world. Moreover, trading in the foreign exposes the participants to significant losses due to risks of international exposure.

## Question 2

The foreign companies listed on the U. S. stock exchanges are valued higher than other companies, which are not listed in order to attract investors. This is so because most profitable companies attract investors, which is reflected in a higher valuation. The U. S. investors become more willing to consider the stocks of the companies that are highly valued because they will receive high dividends. They also receive a higher valuation because the stocks in the companies that are not listed are quite limited. Therefore, higher valuation ensures the company listed in the U. S. stock exchange full benefits of international diversification.

For the company to be listed in the U. S. stock exchange, it should be profitable and show the ability to trade unlimited stocks. Therefore, those with limited stock avoid being listed. Similarly, listing stocks in the United States exposes the company to international exposures, which most companies fear to experience.

## Question 3

The undervaluation of stocks because managers have spent the investors' money on lavish perquisites will have hostile takeover consequences. The hostile takeover will lead to separation of ownership and control of the company. This will have negative impact to Company because the management appointed to control the company can have differing interests from that of the shareholders. The shareholders receive immediate benefit after a hostile takeover because the acquiring company pays a premium price for stocks. The acquiring company may incur debts in order to place their bids, or purchase the overpriced stocks. This will affect the share value for

stockholders of the acquiring company. Therefore, hostile takeover has negative consequences to the economy because most do not succeed.

#### **Question 4**

The spread size can be influenced by several factors. The number of traders in the market is one of the factors that affect the size of the spread. The limited number of traders increases the size of the spread drastically. This is so because buyers and sellers in the market may want a very different price which will affect the liquidity and competitiveness of the spreads. Another factor is the volatility of the market, which makes the size of the spread fluctuate significantly. For instance, the size of the spread increases greatly in an extremely volatile market. Similarly, government policies affect the size of the spread. This is so because they have effects on exchange rates, which in turn have an impact on the size of the spread.