Report on merits and demerits for strategies for managing interest rate risk

Business, Company

Interest rate risks occur in an interest-acquiring asset, such as bonds or loans, due to the likelihood of a variation in the asset's cost as a result of the unpredictability of interest rates (Zagst and Rudi 126). The values of bonds are affected more by interest rate risks as compared to stocks. Managing interest rate risk has become of importance and various strategies have been developed to cope with the interest rate risks.

With risk management, one has the option to do something or ignore that risks could occur and this is what many people decide to do, ignore the risks (Zagst and Rudi 89). But, in areas of unpredictability, risk management is of most importance, mainly to businesses and most practices. Changes in interest rates can have great effects on a business's profit margin. Hence, businesses should keep a keen eye on the rates of interests and their fluctuation and knowledge of how these adverse changes could bring the company to major losses or major profits.

Whoever, managing interest rate risks doesn't apply positively to all situation, this include situation where interest rate risks strategies do not apply hence when applied lead additional costs to the company with no advantage gained. Implementation of risk management strategies may lead to reduction of the possible gain, profitability, of the company in the long term (Agrawal 128). This shows that organizations should invest wisely in the interest rate risk managing strategies to be implemented so as an not to lead adverse negative effects in terms of reduction of profitability of the company.

Works Cited

Agrawal, R C. Risk Management. Jaipur, India: ABD Publishers, 2009. Print.

Holmes, Andrew. Risk Management. Oxford, U. K: Capstone Pub, 2002. Print.

Zagst, Rudi. Interest Rate Management. Berlin: Springer, 2002. Print.