

# Questions and comments on graph and starbucks

[Business](#)



Euro's Exchange Rate and Starbucks Question There are multiple reasons d for the rise in Euro's exchange rate, which apart from Chinese foreign reserves diversification intent include large inflows of capital in European markets and shrinkage of the balance sheet of European Commercial Bank (ECB). China, however, presents an even bigger challenge towards Euro's continuing strengthening. The stance of Chinese government to diversify its foreign reserves can considerably increase the value of Euro in comparison with other currencies, and most importantly US dollar too. Moreover, a stronger Euro will definitely make it difficult for European economies to compete in the global market due to comparatively low prices offered by non-European economies.

#### Question 2

Starbucks' understanding towards the increase in exchange rate for Euro vs Dollars has saved it from making an investment, which would have resulted in lower revenues earning; however, the other issue of tax avoidance is a considerable one, which not only focuses on the taxation policies but also increases the political risk associated with such practices. The fact that the actions of the company can affect the political risk has to be considered, which will definitely be another setback for the operations of the company in the European market (Kapil).

#### Question 3

The management of Starbucks shall be concerned about the risks associated with foreign currency translations, which may affect the profitability of the company and thereby deviate unfavourably from projected figures. In this regard, the fact that the company has started using forward contracts to cover risks associated with foreign currency translation is a positive step.

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The fact that there is a risk associated with such practice is still acceptable while keeping in view the greater risk associated with losses incurred in foreign currency translations (Kapil).

#### Works Cited

Kapil, Sheeba. Financial Management. New Delhi: Dorling Kindersley, 2011.