

International financial management

Business, Management



full International Financial Management 12 May Currency Fluctuations and Economic Exposure A company can take protective measures against currency fluctuations or changes in currency exchange rates by hedging using futures contracts. These are advance contracts to buy or sell a particular asset class which in this case is currency. Hedging simply involves the process of taking one risk in exchange for another offsetting risk. In the case of Colorado, Inc. it can enter into a futures contract where it will buy American dollars at a predetermined rate at a predetermined date sometime in the future. In this case, Colorado, Inc. is said to take the long position in dollars; alternatively, it can choose to buy dollars at spot currency rates. In the case of UVA Company, it can take the same measures (buy futures contract or buy at spot rates) but this time, it should take a long position in the Thai baht since this is the currency of reckoning (revenues and expenses are measured in baht). In the case of Albany Corporation, it should take a long position in Australian dollars by buying this currency either at spot rates or by using the futures contract by which it will lock in the Australian dollar price at a predetermined rate but undertake for its delivery by payment at a later date.

Economies of scale pertain to the cost advantages obtained by a business enterprise due to its size, output volume, or scale of operations (using subsidiaries and joint ventures in foreign countries) and a large percentage of its annual revenues are earned from these foreign markets. When a multinational corporation restructures to reduce its economic (or operating) exposure, it will necessarily have to reduce or let go of some of its subsidiaries as these are the sources of its economic exposure mainly from

unexpected currency exchange rate risks. Its economies of scale are lost once it draws back from foreign markets (Madura 384).

Work Cited

Madura, Jeff. International Financial Management. Florence, KY, USA: Cengage Learning, 2011. Print.