

Aifs case havard business school



**ASSIGN
BUSTER**

1. What gives rise to the currency exposure at AIFS? 2. What would go on if Archer-Lock and Tabaczynski did not fudge at all? 3. What would go on with a 100 % hedge with forwards? A 100 % hedge with options? Use the prognosis concluding gross revenues volume of 25. 000 and analyse the possible results relative to the ' zero impact' scenario described in the instance. finish the spreadsheet. . 4. What happens if gross revenues volumes are lower or higher than expected as outlined at the terminal of the instance? 5. What fudging determination would you recommend?

ANS 1:

American Institute for foreign Study (AIFS) had two divisions. 1. The College division. 2. High School travel division. From the college division the pupils are sent to different parts of the universe for semester long classes. From the 2nd division the high school pupils every bit good as their instructors are sent for 1-4 hebdomad trips worldwide. More than 50000 pupils are sent out of the state each twelvemonth on academic every bit good as cultural exchange programmes. For these two events AIFS requires different currencies other than American dollars. When AIFS got major per centum of its gross in American Dollars it has to use most in Euros and British Pounds. If there will be any exchange rate volatility, there will be currency mismatch. This gives currency exposure at AIFS.

Ans-2

If Archer-Lock and Tabaczynski would not fudge at all, they had to confront the below three hazards. 1) Bottom line hazard: When there will be an inauspicious move of the exchange rate, there may be an addition in the

cost base. If dollar depreciates. they have to pay more for unit dollar of Euro.

two) Volume Hazard: They have to purchase foreign currency six months before maintaining some predicted value of future gross revenues in head. If the existent value differs from the predicted 1. there may be a opportunity of loss.

three) Competitive pricing hazard: They fix their monetary value through the catalog and one time monetary value is fixed it hard to alter the monetary value even if there may be a depreciation of dollars. This may ensue in a immense loss to their concern.

Ans-3:

Refer excel-sheet: QUES-3”

Ans-4:

Refer excel sheet: “ 4-Sales Volume 30000” and “ 4-Sales Volume 10000”

Ans-5

Harmonizing to Tabaczynski. the chance of the times that one additions from how the hedge is done. is same as one may losing by making so in the long tally. Hedging by options is a better manner to make so as in inauspicious state of affairss you will merely lose the premium sum you have paid. At the same clip the company has non to pay any premium and may be benefitted by utilizing hereafters. but there is a fright of immense loss that can be avoided by utilizing options. So we will advice AIFS to fudge 50 % with options and 50 % with hereafters. In this hedge. the loss from the one type of hedge will be compensated by the other to some extent.