



Why you need to
understand
International Finance

P. Sercu,
*International
Finance: Theory into
Practice*

Part I

Intro:

Motivation and Background Information



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Chapter 1

Why you need to Understand International Finance



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Why you need to
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To provide a framework for making financial decisions asked from an international finance manager

- ▷ ◇ management-oriented, not macro Int Fin
- ▷ ◇ finance *sensu stricto* (financial investments; funding)
 - ◇ risk management, esp. hedging (risk reduction)
 - ◇ help in decision making, by offering valuation of commercial or investment proposals

These tasks are often hard to separate:

- ◇ loan can serve as a hedge
- ◇ hedging sometimes facilitates valuation
 - ▷ Evaluate an export offer price in Hrvnia
 - ▷ Black Merton Scholes
- ◇ business decisions may depend on hedging/not hedging



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decisions asked from an **international** finance manager:

◇ nominal exchange rates & risks (⇐ own currencies)

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decisions asked from an **international** finance manager:

- ◇ **nominal exchange rates & risks** (\Leftarrow own currencies)
 - real exchange risk (\Leftarrow goods-market segmentation)
- ◇ extra credit risks (\Leftarrow legal/judicial segmentation)
- ◇ capital market segmentation—incl Corp Gov issues
- ◇ international tax issues
- ◇ political risks in international trade & investments





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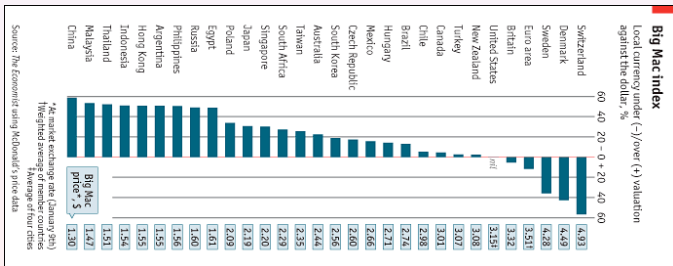
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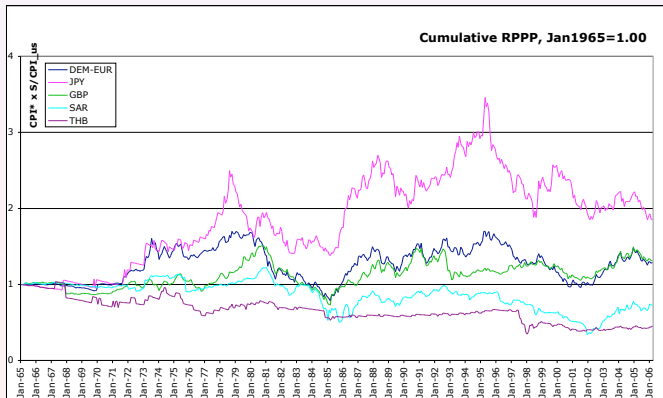
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