Why you need to understand International Finance

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

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**Part I**

**Intro:** Motivation and Background Information
Chapter 1

Why you need to Understand International Finance

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Aim and structure of the book

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 Hrivnia
  - Black Merton Scholes
- business decisions may depend on hedging/not hedging
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- nominal exchange rates & risks (← own currencies)
- real exchange risk (← goods market segmentation)
- extra credit risks (← legal/judicial segmentation)
- capital market segmentation—including Corp Gov issues
- political risks in international trade & investments
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**Chart:** THB RPPP v actual

- RPPP
- Actual
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![Graph showing Cumulative RPPP, Jan1965=1.00](Cumulative_RPPP.jpg)
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