
CONTENTS

Preface	ix
1 Management in an integrated world	1
1.1 Introduction	1
1.2 The macroeconomic environment of the firm	6
1.3 What level of concern?	13
1.4 The contents of this book	15
Endnotes	16
2 Concepts of macroeconomic risk and exposure	17
2.1 Introduction	17
2.2 Corporate risk — a brief review of the concept	18
2.3 Corporate risks: who cares?	22
2.4 Macroeconomic risks	27
2.5 What could be gained from a risk-management programme?	31
2.6 Risk management and the creation of options	33
2.7 Concluding remarks on the conceptual issue of risk and exposure	36
Endnote	37
3 Traditional approaches to measuring macroeconomic exposures	39
3.1 Introduction	39
3.2 From transactions exposure to economic exposure	40
3.3 Translation exposure	49
3.4 From translation exposure to economic exposure	52
3.5 Does the translation method matter?	54

3.6	A comparison of exchange rate exposure measures	55
3.7	Interest rate exposure measures	60
3.8	Concluding remarks on traditional exposure measures	67
Appendix 3.1	Measuring translation exposure under FASB 8 and FASB 52: an example	68
Appendix 3.2	Purchasing Power Parity and real exchange rates	73
Appendix 3.3	International Fisher Parity	80
	Endnotes	85
4	Measuring macroeconomic impact on the firm — a comprehensive approach	87
4.1	Introduction	87
4.2	Determinants of cash flow exposure	89
4.3	Estimating cash flow exposure	95
4.4	Decomposing cash flow exposure	105
4.5	The share price and macroeconomic fluctuations	106
4.6	Concluding remarks on the comprehensive approach	107
	Endnotes	108
5	Measuring macroeconomic exposure — the case of Volvo Cars	111
5.1	Introduction	111
5.2	Exposure coefficients	113
5.3	The choice of dependent variable	114
5.4	The choice of independent variables and time horizon	118
5.5	Volvo Cars	120
5.6	Results, interpretations, and the use of coefficients	127
5.7	Using the exposure coefficients for future periods	135
5.8	Concluding remarks on the case of Volvo Cars	140
	Endnotes	142
6	Hedging macroeconomic exposures	143
6.1	Introduction	143

6.2	Derivative contracts and transactions exposure — an overview	144
6.3	Practices in managing translation exposure	151
6.4	Hedging interest rate and inflation risks	156
6.5	Hedging macroeconomic exposure in market price variables	161
6.6	Hedging with uncertain exposure using derivatives	169
6.7	Taxes and hedge contracts	173
6.8	Concluding remarks on approaches to hedge macroeconomic uncertainty	176
	Endnotes	178
7	Strategies for exposure management	179
7.1	Introduction	179
7.2	Choice of target variable and time horizon	181
7.3	The firm's and management's risk attitude	184
7.4	Price adjustment in goods and financial markets	185
7.5	Choice of exposure management strategies	187
7.6	Information requirements	191
7.7	Adjustability of commercial operations — real options	193
7.8	Concluding remarks on the choice of strategy	196
	Endnotes	197
8	Macroeconomic uncertainty strategy (MUST) analysis — a summary	199
8.1	Introduction	199
8.2	Shortcomings of traditional methods	201
8.3	Measures of corporate performance and exposure assessment	202
8.4	Elements of MUST analysis	204
	References	211
	Index	215