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MATRIC NUMBER: 17/SMS01/002

COURSE CODE: ECO 314

COURSE: INTERNATIONAL ECONOMICS 2

1A. FOREIGN EXCHANGE MANAGEMENT (FEM) IS THE CORE ISSUE IN INTERNATIONAL FINANCE. DISCUSS.

International finance plays a critical role in international trade and inter-economy exchange of goods and services. International finance ( it also referred to as international monetary economics or international macroeconomics) which is the branch of [financial economics](/wiki/Financial_economics) broadly concerned with [monetary](/wiki/Monetary_economics) and [macroeconomic](/wiki/Macroeconomics) interrelations between two or more countries. International finance examines the dynamics of the [global financial system](/wiki/Global_financial_system), [international monetary systems](/wiki/International_monetary_systems), [balance of payments](/wiki/Balance_of_payments), [exchange rates](/wiki/Exchange_rates), [foreign direct investment](/wiki/Foreign_direct_investment), and how these topics relate to [international trade](/wiki/International_trade). Sometimes referred to as multinational finance, international finance is additionally concerned with matters of international [financial management](/wiki/Corporate_finance). Investors and [multinational corporations](/wiki/Multinational_corporation) must assess and manage international risks such as [political risk](/wiki/Political_risk) and [foreign exchange risk](/wiki/Foreign_exchange_risk), including transaction exposure, economic exposure, and translation exposure. Some examples of key concepts within international finance are the [Mundell–Fleming model](/wiki/Mundell%E2%80%93Fleming_model%22%20%5Co%20%22Mundell%E2%80%93Fleming%20model), the [optimum currency area](/wiki/Optimum_currency_area) theory, [purchasing power parity](/wiki/Purchasing_power_parity), [interest rate parity](/wiki/Interest_rate_parity), and the [international Fisher effect](/wiki/International_Fisher_effect). Whereas the study of international trade makes use of mostly [microeconomic](/wiki/Microeconomics) concepts, international finance research investigates predominantly [macroeconomic](/wiki/Macroeconomics) concepts. The three major components setting international finance apart from its purely domestic counterpart are as follows:

* [Foreign exchange](/wiki/International_trade) and political risks.
* [Market imperfections](/wiki/Market_imperfection).
* Expanded [opportunity sets](/w/index.php?title=Opportunity_set&action=edit&redlink=1).

These major dimensions of international finance largely stem from the fact that sovereign nations have the right and power to issue currencies, formulate their own economic policies, impose taxes, and regulate movement of people, goods, and capital across their borders.

IMPORTANCE OF INTERNATIONAL FINANCE

* International finance is an important tool to find the exchange rates, compare inflation rates, get an idea about investing in international debt securities, ascertain the economic status of other countries and judge the foreign markets.
* Exchange rates are very important in international finance, as they let us determine the relative values of currencies. International finance helps in calculating these rates.
* Various economic factors help in making international investment decisions. Economic factors of economies help in determining whether or not investors’ money is safe with foreign debt securities.
* Utilizing IFRS is an important factor for many stages of international finance. Financial statements made by the countries that have adopted IFRS are similar. It helps many countries to follow similar reporting systems.
* IFRS system, which is a part of international finance, also helps in saving money by following the rules of reporting on a single accounting standard.
* International finance has grown in stature due to globalization. It helps understand the basics of all international organizations and keeps the balance intact among them.
* An international finance system maintains peace among the nations. Without a solid finance measure, all nations would work for their self-interest. International finance helps in keeping that issue at bay.
* International finance organizations, such as IMF, the World Bank, etc., provide a mediators’ role in managing international finance disputes.
* The very existence of an international financial system means that there are possibilities of international financial crises. This is where the study of international finance becomes very important. To know about the international financial crises, we have to understand the nature of the international financial system.
* Without international finance, chances of conflicts and thereby, a resultant mess, is apparent. International finance helps keep international issues in a disciplined state.

1B. HOW DOES THIS AFFECT THE BALANCE OF PAYMENT (BOP) OF YOUR HOME COUNTRY?

* We found that exchange rate has a significant impact on the balance of payments position. The exchange rate depreciation can actually lead to improved balance of payments position if fiscal discipline is imposed. We also found out that improper allocation and misuse of domestic credit, fiscal indiscipline, and lack of appropriate expenditure control policies due to centralization of power in government are some of the causes of persistent balance of payments deficits in Nigeria. We recommend that appropriate monitoring machineries be set up to ensure judicious use of credit and available foreign exchange. Exchange rate policies have to be used along with the fiscal and monetary instruments to get meaningful results. This implies that our balance of payments problems can be solved simultaneously from two angles, namely, boosting supply and managing demand. Export diversification and promotion, import substitution and frivolous import restriction cannot be over emphasized.

2. EXPLICITY SHOW THE ISSUES IN FOREIGN EXCHANGE MARKET (FEM) USING YOUR HOME COUNTRY AS CASE STUDY

The Nigeria economic prior to the period of deregulation was one characterized by increased deficit financing by the government, low external reserves and unfavourable balance of payments. The acquisition of foreign exchange of finance the importation of industrial imports poses a serious problem to the industries. The inadequacy of foreign exchange needed, led to capacity under-utilization in most developing countries. Lack of raw materials locally, led to dependency on imported raw materials. Also, differences in natural endowments of different nations necessitate importation of raw materials from countries with surplus. This study seeks to determine the extent at which foreign exchange market has helped in the growth of the Nigerian economy. It is a survey method of research with 105 as the sample size. Simple percentage was used as the method of data analyses. At the end of the study, it was found out that the use of Letters of Credit (LC) as means of financing import via foreign exchange market have increased the level of economic activities in Nigeria. Again, the Domiciliary Account Operation contributed a great deal to the level of economic activities in Nigeria. It should equally be noted that the Nigerian environment is such that does not encourage capital investment, which implies that a de-regulatory interest rate economy will not help in the growth of the economy. From the foregoing, it is crystal clear that the value of naira is comparatively weak thereby turning the economy into a cargo economy with its attendant effect on import dependency which lead primarily to huge debt, affecting socio-political environment of business in Nigeria. It is therefore, recommended that the Federal Government should remove all the subsidy on sales of foreign currencies at all level irrespective of the transaction involved as this will remove disparity between the official and parallel market rate of price without government having to intervene. The federal government should equally abolish the existence of parallel market (that is black market) by legislation and strongly implement the dictate of the law to the later on any offender without discrimination.