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LEVEL : 300

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ASSIGNMENT

FEM is associated with currency transactions manufactured to meet and receive overseas payments. Beyond these transactions.

##  Foreign Exchange Management

Forex management starts with the trading of currencies in order to exchange goods and services internationally. International businesses convert overseas gains back to their home currency to spend, meanwhile, consumers exchange domestic currency for foreign ones to buy overseas goods.

Foreign exchange occurs at rates that are associated with currency values. Foreign exchange rates show the amount of one currency that must be given up to receive one unit of another currency. For example, domestic foreign exchange rates go up when the economy is strong and the currency is in high demand to buy the country’s stocks and real estate. Conversely, currency devalues amidst political and social instability.

Governments manage foreign exchange reserves in order to influence the domestic economy. On a national level, low exchange rates are preferable for exporters, while strong currency values benefit consumers with greater purchasing power for imports.

## Foreign Exchange Management Strategies

Forex risks include the loss of purchasing power related to adverse currency change. American businessmen that hold reserves of Japanese yen suffer when the yen drops alternatively, American exporters lose out on sales when dollars strengthen and make their goods more expensive for foreign buyers.

 Large corporations expand in order to balance currency risks, for example, elevated energy costs benefit nations rich in resources and currencies, while industrialized energy importers are prone to experience recession and inflation.

## **How does Foreign Exchange work**?****

 It is decentralized ; in other words, it does not operate in one particular place. Anyone who buys or sells a particular currency accesses the Forex market.

Forex traders use the changing exchange rates to their advantage, they buy a currency which they believe is likely to strengthen and then sell it once it increases in value.

**Issues of FEM in Nigeria**

The management of the forex market in Nigeria has had a lot of challenges over time,including but not limited to;

* Imbalance in demand and supply of forex currencies. This closely relates to the issue of balance of trade and payment with our trading partners.
* Another limitation is due to our monolithic economy. We rely majorly on the export of oil as our major source of foreign exchange earnings. Before the advent of oil in Nigeria, our economy was doing quite well with Agricultural product such as Cocoa, Cotton, Groundnut for exportation driving our forex earnings.
* Nigeria has become an import-dependent nation due to the new found wealth in oil. We import virtually everything ,including consumer goods and luxury goods that we can easily survive without.
* Another limitation is the inconsistency in government policies that has hampered progress in the area of industrialization.
* Corruption is another major challenge in our forex management. Most of our leaders would rather to steal our money and keep such in foreign accounts which reduces the supply end and increases the demand train.
* Unnecessary borrowings by our government. Most of the repayment of these loans will be made through our meager Forex earnings and we pay interest at much higher rates thereby eroding foreign reserves even more.
* Financial and Fiscal indiscipline are also great limitation in our forex management.