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**Question 1**

International finance is a branch of international economics that largely deals with monetary or financial relations between countries. It exists because the activities of firms and governments within a country are affected by and can affect the activities of other countries. It provides an understanding of how countries’ currencies compare with each other and how they exchange goods. All in all, foreign exchange and its management form a fundamental part of international finance. The two are inextricably linked.

International financial management, which is the equitable use of financial resources on a global scale, is a key part of international finance. Major components of international financial management and therefore international finance as a whole include: foreign exchange management and market failure. It can clearly be seen that foreign exchange forms one of the core components and perhaps the most important. One therefore cannot divorce the two.

International finance is an essential part of international trade and the exchange of goods and services among nations. It serves several uses in the international economy. One of those uses is the determination of exchange rates and inflation rates that help in international investment.

It can be seen just from the definition and importance of international finance that foreign exchange forms a core part of that. Therefore if one wishes to participate in international trade, having proper exchange management is vital.

**Question 2**

Managing an economy requires proper use of monetary and fiscal policy to guide the economy in the direction. It also necessitates the use of good foreign exchange policies to regulate international trade. This is very important because of how necessary foreign trade is. No country is an island and all countries must engage in trade. However some problems may arise when trying to adequately manage the foreign exchange of a country. These issues will be highlighted below.

A major issue in foreign exchange management would be the maintenance of a stable currency. A reduction in foreign exchange revenue or an increase could easily change the value of foreign exchange in a country. Nigeria has experienced major decline in the value of the naira. This reduction can be attributed to the decrease in foreign exchange earnings accruing from oil. Measures have been taken to combat the fall of the naira such as devaluation of the currency and such. The success of these measures has largely varied. Thus, maintaining a stable currency poses a serious issue towards foreign exchange management.

Maintaining the level of foreign exchange reserves available also poses an issue in foreign exchange management. Foreign exchange reserves are the assets held by a country’s apex monetary authority that are used to balance payments and influence exchange rates. Nigeria’s high volume of importation has resulted in a dwindling reserve amount. Maintaining an adequate reserve quantity is vital to foreign exchange activities of a country. There have been several measures to curb Nigeria’s importation but without adequate fiscal policies to complement them, their effectiveness has been reduced. Keeping adequate reserve levels also makes for a serious issue of FEM.

Nigeria’s foreign exchange management faces many problems and threats. In order to tackle these issues, there is need for a proper management and good use of monetary and fiscal policies. The establishment of these will prove vital in the country’s international trade.