NAME: ETIMBUK IME MENDIE

DEPARTMENT : ECONOMICS

MATRIC NO: 17/SMS01/022

COURSE CODE: ECO 314

DATE: 14th APRIL 2020

QUESTIONS:

1.Foreign exchange Management(FEM) is the core issue in International finance. Discuss.

b. How does it affect the balance of the payment (BOP) of your home country

2. Explicitly show the issue in the FEM using your home country.

ANSWERS

Foreign exchange management is associated with currency transactions designed to meet and receive overseas payments. Beyond these transactions, foreign exchange management requires you to understand the relevant factors that influence currency values.

Foreign exchange management begins with trading currencies to exchange goods and services overseas. International businesses convert overseas profits back into their domestic currency to spend at home. Meanwhile, consumers exchange domestic currency for foreign banknotes to buy overseas goods. These transactions occur within the foreign exchange markets, where networks of private individuals, banks and organized financial exchanges provide the infrastructure to trade international banknotes.

Foreign exchange occurs at rates that are associated with currency valuations. Foreign exchange rates describe the amount of one currency that must be given up to receive one unit of another currency, and they tend to parallel the political and economic environment of a particular country. For example, domestic foreign exchange rates appreciate when the economy is strong and the currency is in high demand to buy the nation’s stocks and real estate. Conversely, currency values fall amidst political and social instability. Foreigners generally liquidate business assets in war-torn nations that struggle with development.

Foreign exchange management requires you to follow current events that translates into fluctuating exchange rates for a particular country. Foreign exchange management must also identify the distinct risks of translating global business. Adverse shifts in the currency valuation can translate into losses. For example, exporters lose sales when domestic exchange rate strengthen. At that point, exported goods become more expensive to foreign exchange reserves also lose purchasing power at home when the domestic currency value appreciate. Meanwhile, consumers face the risks of declining domestic exchange rates that increase the cost of imported goods and overseas purchases.

ISSUES OF FOREIGN EXCHANGE MANAGEMENT IN THE INTERNATIONAL FINANCE.

## 1 Complex payment schedule

Importers and exporters have some of the most complex payment schedules in the business world. Whether your business sells its products directly to consumers or as a wholesale operation, it’s likely accepting payments in one currency and making payments in another. You might even have several different currencies running through your business at any given time. Many importers and exporters are opting to work with a Global FX Specialist to not only help coordinate those payments to ensure the right vendors get their money, but also to manage the movement of their money in the face of the fluctuating currency market.

## 2.Managing currency volatility

The currency market is constantly shifting, and if your import and export business is making and accepting payments without observing those movements, it could be losing money with each transaction. Managing currency risk is not only about making your dollar go further in the global marketplace, but also about hedging against those market fluctuations. Tracking the global exchange market is a great way to get your business ahead of unfavourable currency valuations. However, that’s not only time consuming, but often requires a Global FX Specialist’s eye to know what geopolitical events to look for, what impacts your might expect from certain market shifts, and how to best protect your business.

## 3.Making cost-effective payments

There is no shortage of financial tools—from market orders to forward contracts, and everything in between—to help import and export businesses like yours manage their global payments and get the most out of the currency market. With a multitude of different vendors and suppliers, your import and export business is likely sending money to several different payees every month. Specialized foreign exchange companies have access to a wide range of global payment products, as well as the expert knowledge they need to educate you on the best products for certain situations. Access to the right products can help your business save money by locking in a desirable rate, taking advantage of positive market conditions, and even saving on fees or service charges.

## 4. Incorporating variable costs

Depending on the industry you serve and the structure of your business, your costs and sales could be tied to different commodity markets. That adds another layer of complexity when it comes to managing your global payments. Importers and exporters like you also need to consider duty payments and taxes payable to different countries and regions—and the currencies in which those payments need to be made. Those different layers of currency exchange, paired with the movement of money into and out of your different business accounts, make it even more crucial for import and export businesses to have a foreign exchange specialist on their side.

B. How does this affect the balance of payment (BOP) of your home country.

That export earning has a strong significant relationship with the exchange rate in Nigeria both in

statistical relationship term apriori expectation term. This goes a long way to explain in boosting the

growth and development of Nigeria’s economy.

2. That constant exchange rate fluctuation invariably devalues the worth of Nigeria naira against dollar

and increased the cost of importation which transcend to inflation and high cost of living in Nigeria

and as well kept on effecting the growth of the economy.

3. That importation has high significant influence on exchange rate fluctuation in Nigeria which results

to deficit balance of payments. More than 65% of finished products consumed in Nigeria are

imported outside the country thereby, reducing our current account which leads to favorable balance

of payments for positive economic growth and development.

2. **Attention is focused on this direction because of the fact that Nigeria being a developing Nation needs to pay more attention to her economic growth and development. A developed economy will go a long way to create employment opportunities for the growing population and improve the general standard of living. The foreign exchange position has deteriorated due to continuous dwindling of the price of crude-petroleum, the Nigeria's major foreign exchange earlier in the world market. In the light of this, Nigeria, which is endowed with abundant natural and human resources, must strive to harness all the resources for its economic development.**

**The management of foreign exchange is a major challenge to the monetary authorities and this is evident in the fact that foreign exchange plays a critical role in a country's development process. For this reason, it is important to assess the impact of foreign exchange on the economy regularly so that the development process is sustained.**

**Foreign exchange management in a deregulated economy could be a system of exchanging the money of a country for another country's in a free trade economy. The interdependence of countries in terms of trade has grown so much that perhaps no country can lay absolute claim and self-sufficiency in its resource requirement. However the degree of a country's exposure to international trade determines its involvement in Foreign Exchange Management. For instance, a country with adequate supply of foreign exchange would import basic raw materials needed for economic development process, likewise, inadequate supply of foreign exchange exerts pressure on external reserves and also imposes serious constraint on the country's development plan.**

**The Naira exchange rate is perhaps one of the most problematic preoccupations of the Nigerian monetary authorities ever since the introduction of the second tier Foreign Exchange Market (SFEM) in 1986. This has brought about a phenomenal increase in the number of market participants as all licensed banks become authorized dealers in foreign exchange. It has also created enormous regulatory and supervisory challenges to the Central Bank of Nigeria (CBN).**