TOPIC: NATURE OF INTERNATIONAL FINANCIAL MANAGEMENT

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Nature of International Financial Management

International financial management is a distinct field of study and certain features set it apart from other fields. The important distinguishing features of international finance are explained below.

1. Foreign Exchange Risk

An understanding of foreign exchange risk is essential for managers and investors in the modern day environment of unforeseen changes in foreign exchange rates. In a domestic economy this risk is generally ignored because a single national currency serves as the main medium of exchange within a country. When different national currencies are exchanged for each other there is a definite risk of volatility in foreign exchange rates. In fact this variability of exchange rates is widely regarded as the most serious international financial problem facing corporate managers and policy makers.

2. Political Risk

Another risk that firms may encounter in international finance is political risk. Political risk ranges from the risk of loss from unforeseen government actions or other events of a political character such as acts of terrorism to outright expropriation of assets held by foreigners. MNC must assess the political risk not only in countries where it is currently doing business but also where it expects to establish subsidiaries.

3. Expanded opportunity Sets

When firms go global they also tend to benefit from expanded opportunities which are available now. They can raise funds in capital markets where cost of capital is the lowest. In addition firms can also gain from greater economies of scale when they operate on a global basis.

4. Market Imperfections

The final feature of international finance that distinguishes it from domestic finance is that world markets today are highly imperfect. There are profound differences among nation's laws tax systems business practices and general cultural environments.

Imperfections in the world financial markets tend to restrict the extent to which investors can diversify their portfolio. Though there are risks and costs in coping with this market imperfection they also offer managers of international firm abundant opportunities.

Scope of International Financial Management

International finance is subject to several external forces. The more important of them namely foreign exchange markets currency convertibility international monetary system balance of payments and international financial system. Scope of IFM

1. Foreign exchange market
2. Currency convertibility
3. International monetary system
4. Balance of payments
5. International financial system

1. Foreign Exchange Market

The foreign exchange market is the place where money denominated in one currency is bought and sold with money denominated in another currency.

2. Currency Convertibility

The discussion of the foreign exchange market was based on the assumption that the currencies. This assumption is not valid. Many countries result the ability of residents and non residents to convert the local currency into foreign currency making international business more difficult. A countries currency is said to be freely convertible when the country's government allows north residents and non residents to purchase unlimited amounts of foreign currencies with the local currency. A currency is non convertible when neither residents nor non residents are allowed to convert local into a foreign currency.

3 **International Monetary System**

Every country needs to have its own monetary system and an authority to maintain order in the system. Monetary system facilitates trade and investment. India has its own monetary policy that is administered by the reserve bank of India. Primarily RBI aims at controlling inflation and money supply and maintaining an interest rate regime that is helpful to economic growth.

4. **Balance of Payments**

Balance of payments is a statistics statement that systematically summarizes for a specified period time the monetary transactions of an economy with the rest of the world.

Bop data help measure financial transitions between residents of the country and residents of all other countries.

Transactions include exports and imports of goods and services income flows capital and gifts and similar one sided transfer payments.

5. International Financial System

The international financial system consists of the numerous rules customs instruments facilities markets and organization that enable international payments to be made and funds to flow across borders.

In recent years the international financial system has experienced tremendous growth. New financial instruments have been created and the volume of transactions has exploded.

The dramatic metamorphosis of international financial markets is driven by technological changes the growth in world trade and the breakdown of barriers to financial flows.

International flow of funds

The international flow of funds refers to the movement of capital across national borders, including investments, loans, and remittances. These financial flows play a crucial role in global economic activity and are influenced by various factors, such as investment.

1. Economic development
2. Foreign exchange earning
3. Market expansion and increase in competition
4. Increase in local and Foreign investment
5. Increase national income and employment
6. Lower production cost

Balance of payment

In international economics, the balance of payments (also known as balance of international payments and abbreviated BOP or BoP) of a country is the difference between all money flowing into the country in a particular period of time (e.g., a quarter or a year) and the outflow of money to the rest of the world.

The balance of payments (BOP) is the method countries use to monitor all international monetary transactions in a specific period. The BOP is usually calculated every quarter and every calendar year.

All trades conducted by both the private and public sectors are accounted for in the BOP to determine how much money is going in and out of a country. If a country has received money, this is known as a credit, and if a country has paid or given money, the transaction is counted as a debit.

- The balance of payments (BOP) is the record of all international financial transactions made by the residents of a country.
- There are three main categories of the BOP: the current account, the capital account, and the financial account.
- The current account is used to mark the inflow and outflow of goods and services into a country.
- The capital account is where all international capital transfers are recorded.
- In the financial account, international monetary flows related to investment in business, real estate, bonds, and stocks are documented.