Scenario 1: Hedging Market Risk

- List two to three risk management options to take in this scenario
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Scenario 1: Hedging Market Risk

Situation: Coffee prices are expected to rise due to poor weather conditions affecting crops.

Recommended Strategies:

1. **Futures Contracts:** Lock in current coffee prices using the cost of carry model to protect against further increases.
2. **Call Options:** Buy call options to secure the right to purchase coffee at today's price, calculated with the Black-Scholes model.
3. **Monitoring Tools:** Use Value at Risk (VaR), stress testing, and scenario analysis to track potential exposure.

Scenario 2: Credit Risk with a New Supplier

- List two to three risk management options to take in this scenario
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Scenario 2: Credit Risk with a New Supplier

Situation: Engaging a new supplier from a region with a volatile economy.

Recommended Strategies:

1. **Credit Default Swaps (CDS):** Transfer default risk to a third party.

2. **Credit Scoring Models:** Evaluate supplier creditworthiness using logistic regression, machine learning, or Altman Z-score.

3. **Collateral Management:** Require posting of collateral to reduce exposure, calculated using margin requirements or potential future exposure models.

Scenario 3: Operational Risk in Trade Execution

- List two to three risk management options to take in this scenario
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Scenario 3: Operational Risk in Trade Execution

Situation: Increase in trading errors due to manual processes.

Recommended Strategies:

1. **Process Automation:** Implement algorithmic trade execution to reduce human error.

2. **Robust IT Infrastructure:** Ensure systems are secure and reliable; assess performance and downtime probabilities.

3. **Regular Audits & Compliance Checks:** Quantitative checks, variance analysis, and compliance scorecards.

4. **Staff Training & Development:** Regular training and performance assessments to improve skills and reduce mistakes.