Risk Management and Valuation

Risk management component: Group Coursework.

Submission deadline: March 7th, 11:59pm.

Please read the HBS case study "Hedging Currency Risk at AIFS", as well as the relevant slides posted on the Hub. Write a short report (5 pages; you can use an appendix to provide references, tables, figures, analysis details, etc.) clearly addressing the following questions and articulating a possible recommendation:

1. Should AIFS not hedge its FX exposure?
2. Should AIFS hedge with forward contracts?
3. Should AIFS hedge with option contracts?
4. Should AIFS use a combination of options and forwards?

In addressing the questions above, try to complement the analysis articulated by Tabaczynski with a quantitative analysis of one or two currency pairs AIFS is exposed to. Use of probabilistic risk metrics (such as Value-at-Risk) is highly recommended to assess the way in which different risk management strategies may be able to mitigate the risks faced by AIFS.