Description

A change in exchange rate through its effect on the costs of inputs, outputs, and substitute goods affects the competitive position of domestic companies with no direct international involvement relative to foreign corporations. Exchange rate movements can affect an individual investor who owns a portfolio consisting of securities in different currencies, multinational company (MNC) with subsidiaries and branches in foreign locations, an exporter/importer who concentrates on international trade and even a firm that has no direct international activities. In addition, the literature to date indicates that exchange rate exposure varies across industries. However, the empirical evidence on the impact of exchange rates on firm value is not conclusive which is surprising in view of the considerable exchange rate fluctuations over the last two decades. In addition, literature indicates that exchange rate exposure varies by time. You are required to:

Pick up a sample of nonfinancial companies listed in London Stock Exchange. This sample should represent at least two different industries. The data should include daily share prices, FTSE100, and the £ trade weighted nominal exchange rate. The data should cover the period from January 2001 to December 2018.

(NOTE: the data can be obtained from Bloomberg, DataStream and Yahoo Finance): a) Using a time-series regression model, estimate the exposure of UK nonfinancial companies to exchange rate risk and interest rate risk before, during and after the financial crisis as follows: PRE-Crisis (15th January 2001 to 15th December 2007), POST-CRISIS (15th January 2009 to 15th December 2018). You need to use the return on FTSE100 index as a control variable. (70 marks) b) Discuss your results and explain why some companies (industries) have/ have not a significant exposure to exchange rate risk. In addition, comment on the exposure coefficients in the above two different periods. Compare and contrast your results with previous studies in the area. (30 marks) Word limit: 2500 words or 10 pages You should show all workings. Summarize the results in tables. Please do not include the raw data in the text.