# SOS POLITICAL SCIENCE AND PUBLIC ADMINISTRATION MBA FA 406(A) SUBJECT NAME: INTERNATIONAL FINANCIAL MANAGEMENT

**TOPIC NAME: INTERNATIONAL FINANCIAL MANAGEMENT**

# MEANING:

- International financial management, also known as international finance, is the management of finance in an international business environment; that is, trading and making money through the exchange of foreign currency. The international financial activities help the organizations to connect with international dealings with overseas business partners- customers, suppliers, lenders etc. It is also used by government organization and non-profit institutions.

# HISTORY & BACKGROUND:

- During the post-war years, the GATT was established in order to improve trade. It removed the trade barriers notably over the years, as a result of which international trade grew manifold. The financial participation of the trader's exporters and importers and the international transactions flowed significantly. It started when different countries started “liberalizing” i.e. when countries agreed to open doors for each other and traded. The advancement of technology and liberalization resulted in the idea of financial management both domestically and globally.

# SOURCES OF IFM:

- There are many sources through which a company can increase its capital by doing business in foreign countries through foreign companies:
- Licensing
- Franchising
- Subsidiaries and Acquisitions
- Strategic Alliances
- Exporting

# Scope of International Finance

- Three interrelated parts of international finance -
- **International Financial Economics**:
  - Concerned with causes and effects of financial flows among nations -application of macroeconomic theory and policy to the global economy.
- **International Financial Management**:
  - Concerned with how individual economic units, especially MNCs, cope with the complex financial environment of international business. Focuses on issues most relevant for making sound business decision in a global economy
- **International Financial Markets**:
  - Concerned with international financial/investment instruments, foreign exchange markets, international banking, international securities markets, financial derivatives, etc

# IMPORTANCE OF IFM:

1) Specialization of some goods and services
2) Opening of new economies
3) Globalization of firms
4) Emergence of new form of business
5) Growth of world trade
6) Development process of Nations

1. Specialization of some goods and services:

There are several theories of international business which favor international trade. Relevant are discussed hereunder : a) Theory of absolute advantage b) Theory of comparative advantage c) Factor proportion theory d) New trade theory – High fixed costs – increase out put to achieve economies of scale and export.

2) Opening of new economies:

Developing countries globalize due to economic pressure being generated by deficient resources - in these countries always there is gap between savings and investments (exports and imports) - Acute BOP problems prompt the countries to promote export.

3) Globalization of firms:

Trade occurs between nations through firms - Exports and FDIs are the means of international trade - Why the firms globalize? a) Theory of competitive advantage b) Theory of imperfect markets c) Product life cycle theory

4) Emergence of new forms of business:

Over period of time the forms of business organizations have changed and felicitated the access of firms to foreign markets example:

- Licensing
- Franchising
- Joint ventures
- Acquisitions
- Subsidiaries

5) Growth of world trade:

- Foreign Trade has grown as a result of :
- Increased production capacities of Nations
- Necessity of Nations
- Developed countries achieved more production and hence they export
- They in turn import such goods which enhance the standards of population
- For developing countries there is a need to import goods, equipment, technology to increase growth

6) Development process of nations:

- Development process can be through:
- Internalization : totally depend on internal sources say internal R&D
- Externalization : pay for external R & D /technology
- All the above methods help growth
- But internal R & D takes time
- External R & D ( technology) is readily available
- Hence countries resort to purchase new technologies form other countries