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International Financial Management in HSBC Holdings plc.

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Introduction

In a globalized economy, multinational corporations (MNCs) must increasingly contend with a multitude of financial risks. These risks can have a significant impact on the financial health of the company and its shareholders. As such, it is critical for MNCs to have a robust system in place to manage these risks. This is where international financial management (IFM) comes in. IFM is the process by which an organization manages its financial affairs in multiple countries. It encompasses all aspects of an organization's financial decisions, from raising capital to investing and managing currency exposure. HSBC Holdings plc is one of the world's largest banks and has a large presence in many different countries. As such, IFM is crucial to the bank's success.

Importance of international financial management in HSBC Holdings plc.

The role of IFM has become even more important in recent years as the global economy has become more interconnected. Events in one part of the world can have ripple effects across the globe. For example, the global financial crisis that began in 2008 was caused in part by lax regulation of subprime mortgage lending in the United States. This event had far-reaching consequences, including causing HSBC Holdings plc to report its first ever loss in 2008. Since then, HSBC Holdings plc has made significant changes to its IFM practices (Madura, 2020). The bank now has a centralized risk management function that oversees all aspects of risk across the organization. This helps ensure that potential risks are identified and managed effectively.

Challenges that the corporation may be experiencing in different international financial markets

Different international financial markets can pose different challenges for a corporation like HSBC Holdings plc. For example, in more developed markets like the United States and Europe, HSBC may face more stringent regulation and oversight than in less developed markets. Additionally, more developed markets are generally more stable and predictable than less developed markets, meaning that HSBC may have to take on more risk to achieve growth in these markets.

In less developed markets, meanwhile, HSBC may have more opportunities for growth but also face greater risks. These risks include political instability, currency volatility, and less

predictability overall. To succeed in these markets, HSBC will need to be nimble and adaptable, as well as have a good understanding of the local business environment.

Interest Rate Parity theory in HSBC Holdings plc.

The Interest Rate Parity theory is a key concept in HSBC Holdings plc's international financial management. This theory states that the interest rate differential between two countries is equal to the expected change in the spot rate of the currency of one country relative to the other. In other words, this theory suggests that interest rates in different countries move in opposite directions to offset any changes in exchange rates.

Additionally, the Interest Rate Parity theory can help HSBC Holdings plc predict future movements in exchange rates. If HSBC Holdings plc believes that the interest rate differential between two countries is likely to widen, it can take steps to hedge its foreign exchange risk accordingly. Conversely, if HSBC Holdings plc believes that the interest rate differential is likely to narrow, it can adjust its hedging strategy accordingly (Nirmali and Rajapakse, 2016).

Overall, the Interest Rate Parity theory is a key tool that HSBC Holdings plc uses to manage its foreign exchange risk. By understanding how interest rates and exchange rates are related, HSBC Holdings plc can make better decisions about which currencies to buy or sell and when to do so. This ultimately allows HSBC Holdings plc to minimize its exposure to currency fluctuations and maximize its profitability.

Purchasing Power Parity HSBC Holdings plc.

Purchasing power parity (PPP) is an economic theory that states that the exchange rate between two currencies is equal to the ratio of the two countries' prices for a basket of goods and services. In other words, PPP says that a unit of currency should buy the same amount of goods and services in different countries. If PPP holds true, then changes in exchange rates should offset changes in price levels across countries. That means if the cost of living in Country A goes up by 10%, then the value of its currency should fall by 10% against other currencies.

PPP is often used to measure living standards or GDP (gross domestic product) across countries. When applied to GDP, PPP tells us how much a country's currency would need to be worth if its

citizens could purchase the same amount of goods and services as citizens of another country with a different currency.

[Fisher Effect HSBC Holdings plc.](#)

The Fisher effect is the relationship between interest rates and inflation. When inflation increases, so do interest rates. This is because when the cost of living goes up, people demand higher wages to keep up with their rising costs. In turn, businesses raise prices to cover their increased costs. The result is that prices spiral upwards, and so does the interest rate required to compensate for the loss in purchasing power caused by inflation.

In countries with high inflation, the Fisher effect can lead to extremely high interest rates. This can be a problem for borrowers, who may find it difficult to repay their loans. It can also be a problem for lenders, who may find that they are not being paid enough interest to compensate them for the loss in purchasing power (Bosupeng, 2016).

The Fisher effect can also have an impact on exchange rates. When inflation is high in one country and low in another, the currency of the country with high inflation will tend to depreciate against the currency of the country with low inflation. This is because people will want to hold more of the currency with low inflation (which will buy more goods and services) and less of the currency with high inflation (which will buy fewer goods and services). HSBC Holdings plc is a multinational bank headquartered in London, United Kingdom. It is one of the largest banks in the world with over 6,000 branches across 80 countries.

[Dividend distribution policy of HSBC Holdings plc.](#)

HSBC Holdings plc has a progressive dividend distribution policy. The company pay out 50% of its profits as dividends to shareholders every year. This policy has been in place since the 1980s and has helped the company maintain a strong financial position. In addition to this, the company also repurchases shares when they are undervalued to help boost shareholder value.

[Impact of efficient market hypothesis theory in HSBC Holdings plc.](#)

The efficient market hypothesis (EMH) is a key theory in modern finance that has had a significant impact on HSBC Holdings plc. The EMH posits that financial markets are efficient

and that prices of assets reflect all available information. This means that it is impossible to beat the market because any excess returns that an investor may achieve are due to luck rather than skill (Naseer and Bin Tariq, 2015).

HSBC Holdings plc has been a strong advocate of the EMH and has used it to guide its investment decisions. The bank believes that the EMH makes markets more predictable and efficient, which in turn reduces risk and improves returns for investors (Shapiro and Hanouna, 2019). As a result, HSBC Holdings plc has been a major player in the global financial markets for many years.

Methods of appraising projects used by HSBC Holdings plc.

HSBC Holdings plc has a long history of successful international financial management. The company uses a variety of methods to appraise projects and make investment decisions. One method HSBC Holdings plc uses to appraise projects is the net present value (NPV) technique. This approach estimates the difference between the present value of cash inflows and the present value of all cash outflows associated with a project. If the NPV is positive, the project is typically accepted; if it is negative, the project is typically rejected.

Another appraisal method used by HSBC Holdings plc is the internal rate of return (IRR). The IRR is the discount rate that makes the NPV of all cash flows from a project equal to zero. Projects with an IRR greater than HSBC's required rate of return are typically accepted, while those with an IRR less than the required rate are typically rejected (Johansson and Kriström, 2015).

Finally, HSBC Holdings plc also looks at payback period when appraising projects. The payback period is simply the length of time it will take for a project to generate enough cash inflows to cover its initial investment outlay. Shorter payback periods are generally preferred to longer ones, as they represent less risk for the company.

All three of these methods - NPV, IRR, and payback period - are important considerations in any project appraisal at HSBC Holdings plc.

Conclusion

In conclusion, international financial management plays a crucial role in the success of HSBC Holdings plc, one of the world's largest and most respected financial institutions. By carefully managing its financial resources and risks, HSBC has been able to maintain a strong and stable financial position, even during times of economic uncertainty. Through its focus on innovation, collaboration, and sustainability, HSBC has also been able to adapt to changing market conditions and meet the evolving needs of its customers around the world. As a result, HSBC has cemented its reputation as a trusted and reliable partner for individuals, businesses, and governments seeking financial solutions and support.

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