

11.12: Key Takeaways

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Finance, like other areas of business, is a global discipline. In order to achieve the goal of maximizing shareholder wealth, it is necessary for management to consider the role of international opportunities for production and marketing of goods and services. However, engaging in international operations introduces additional risks, one of which is currency risk. Given that most major currency markets operate on a floating rate system, the US dollar will strengthen and weaken relative to other currencies over time based on trade balances, international capital flows, interest rates and many other factors. These currency fluctuations provide advantages and/or disadvantages to different parties. It is essential that financial decision makers understand how to interpret currency fluctuations and how to manage the risk associated with these fluctuations. In addition, investors also need to consider the role of international markets into their investment allocations. Adding international stocks and bonds to a portfolio can provide diversification benefits and increase the potential returns. However, it also provides additional complications in the form of currency risk, information risk, and taxes.

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