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The Faculty of Economics & Administrative Sciences
Department of Banking & Finance

"Foreign Exchange Risk Management Practices by Jordanian Non-Financial Firms"

"مارسات إدارة مخاطر أسعار الصرف الأجنبية من قبل الشركات الأردنية غير المالية"

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Foreign Exchange Risk Management Practices by Jordanian Non-Financial Firms

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A thesis submitted in partial fulfillment of the requirements for the degree of Master of Banking & Finance in the Faculty of Economics and Administrative Sciences, Yarmouk University, Irbid, Jordan

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To My Parents ....
Acknowledgment

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Abstract

"Foreign Exchange Risk Management Practices by Jordanian Non-Financial Firms"

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Foreign exchange risk becomes more and more important in light of world markets globalization and internationalization, and is one of the most difficult and persistent problems with which the financial executives must cope with. This study concentrates on foreign exchange risk management practices of Jordanian based firms, and examines the relationship between various factors that are presumed to affect the adopting of foreign exchange risk management techniques namely: firm's size, sector, international business involvement and legal structure. The study focuses on transaction and economic exposures as the dimensions of foreign exchange risk management techniques.

Results are taken from an empirical field study of 73 non-financial firms listed in Jordan's Income & Sales Tax Department, as major tax payers. The study uses the Kruskal-Wallis one-way analysis of variances (ANOVA) to analyze the data.

The results indicate that use of foreign exchange risk management techniques such as the financial derivatives, is not a common practice by Jordanian firms. The most common methods used by the firms are internal (natural) resources to encounter the foreign exchange risk such as matching, netting, using local currency and the price policy. In addition, this study concludes that there are no relationships between firm's size and legal structure on one hand and the management practices toward transaction exposure on the other. While a relationship between firm's sector and international involvement with the management practices was found in the transaction exposure dimension. Concerning the economic exposure dimension a relationship between all the characteristics and the managerial techniques is found.

The study recommends proper training programs for financial managers in order to enhance their knowledge about the importance of foreign currency risk and the different techniques used to manage that risk.

Key Words: foreign exchange risk, exchange rate risk, currency risk, transaction exposure, economic exposure, financial derivatives.