**Hedging at Porsche**

Order 1604174

Description

Dear Writer,  I hope you're doing well and safe. This case study relates to Financial Institutions and Markets course.  I have uploaded Harvard publishing and question of this case study.  Question is  1.     Suppose it is end of November 2007, and Porsche reviews its hedging strategy for the cash flows it expects to obtain from vehicle sales in North America during the calendar year 2009. Assume that Porsche entertains three scenarios: The expected volume of North American sales in 2009 is 32,750 vehicles. The low-sales scenario is 30% lower than the expected sales volume, and the high-sales scenario is 30% higher than the expected sales volume. Assume, in each scenario, that the average sales price per vehicle is $90,000 and that all sales are realized at the end of November 2009. All variable costs incurred by producing and shipping an additional vehicle to be sold in North America in 2009 are billed in € and amount to €60,000 per vehicle. Characterize how Porsche’s € cash flows, net of variable costs, obtained from its North American sales depend on the spot exchange rate that prevails at the end of November 2009, if:   a.     Porsche does not hedge its currency exposure at all; b.     Porsche hedges by selling forward US$ equal to the amount of expected 2009 sales with a two- year forward contract; c.     Porsche hedges by buying two-year European at-the-money put options on US$ (providing to Porsche the right to sell US$, receiving €, at the strike exchange rate) in sufficient quantity to have the right to sell an amount of US$ equal to expected 2009 sales.   Thank you  Best regards,  Customer