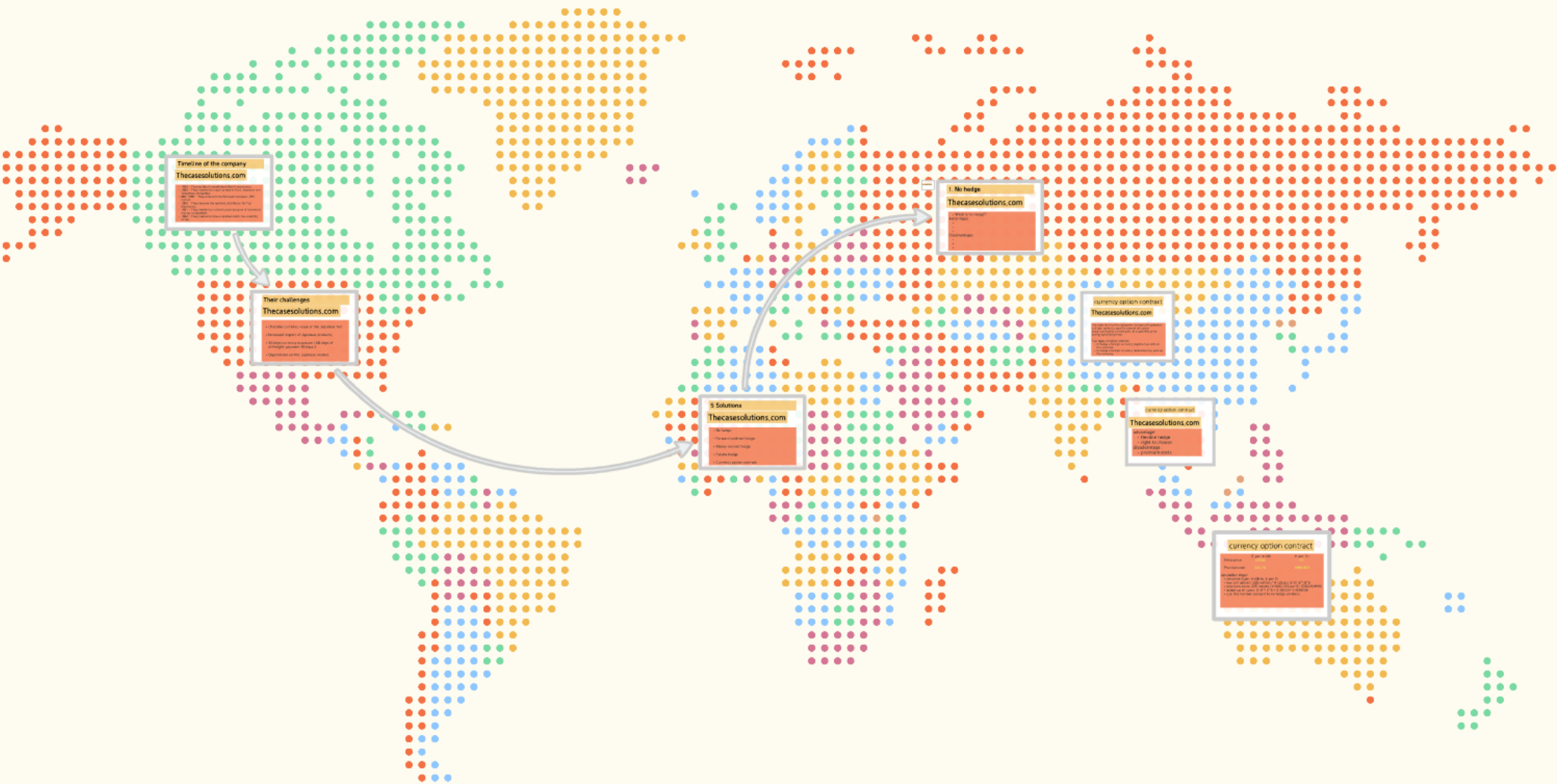


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Affinity Plus



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Affinity Plus

Timeline of the company

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- 1950 - Thomas Merrill established Merrill electronics.
- 1980 - They started to import products from Japanese and Taiwanese companies.
- Mid-1980 - They entered into Personal Computer (PC) market.
- 1989 - They became the national distributor for Fuji Electronics.
- 1991 - They needed to cut their price because of increased market competition.
- 1992 - They started to have a problem with the volatility of Yen.

Their challenges

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- Unstable currency value of the Japanese Yen.
- Increased import of Japanese products.
- 90 days currency exposure (60 days of airfreight, payment 30 days)
- Dependence on the Japanese market.

5 Solutions

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- No hedge.
- Forward contract hedge.
- Money market hedge.
- Future hedge.
- Currency option contract.

1. No hedge

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- What is no hedge?

Advantages

-
-
-

Disadvantages

-
-
-

currency option contract

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The right, but not the obligation, to buy (call option) or sell (put option) a specific amount of a given stock, commodity, currency, etc. at a specified price during a specified period.

Two types of option contract:

- to hedge a foreign currency payable buy calls on the currency.
- to hedge a foreign currency receivable buy puts on the currency.

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currency option contract

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advantage:

- flexible hedge
- right to choose

disadvantage :

- premium costs