



Hedging Currency Risks at AIFS. Harvard Case Solution & Analysis

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What is AIFS?

- American Institute for Foreign Study
- Founder: Sir Cyril Taylor, 1964
- Academic/Cultural Foreign Exchange
- 50,000+ Students
- Major Divisions:
 - College
 - High School

College Division

- 5,000+ American university students
- Sessions include:
 - Academic Year
 - Summer/Winter Holiday
- Countries with study programs:
 - Australia
 - Austria, Czech Republic, Italy, Spain, France
 - Russia
 - South Africa

High School Division

- Founded 1978
- American Council for International Studies (ACIS)
- 20,000 high school students and teachers annually
- 1 to 4-week educational trips to Europe, China, Mexico, Africa, Australia and the Americas
- All inclusive

Conclusion

- AIFS should hedge forward contracts in the short-run and options in the long-run.
- Forwards are more attractive if the exchange rate is in their favor.
- Options are more secure if there are unfavorable changes in currency rates.

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Pricing

College Pricing

- Academic planning year from July 1 to June 30
- Prices for any given year had to be set by June 30 the previous year

High School Pricing

- Calendar year basis from January to December

****Guaranteed Pricing***

Hedging at AIFS

- Incurred revenues in American Dollars (USD)
- Incurred costs in Euros (EUR) and British Pounds (GBP)
- AIFS hedged its future cost to manage different types of risk
- Covered 100%

Types of Risk

- Bottom-line
- Volume
- Competitive Pricing