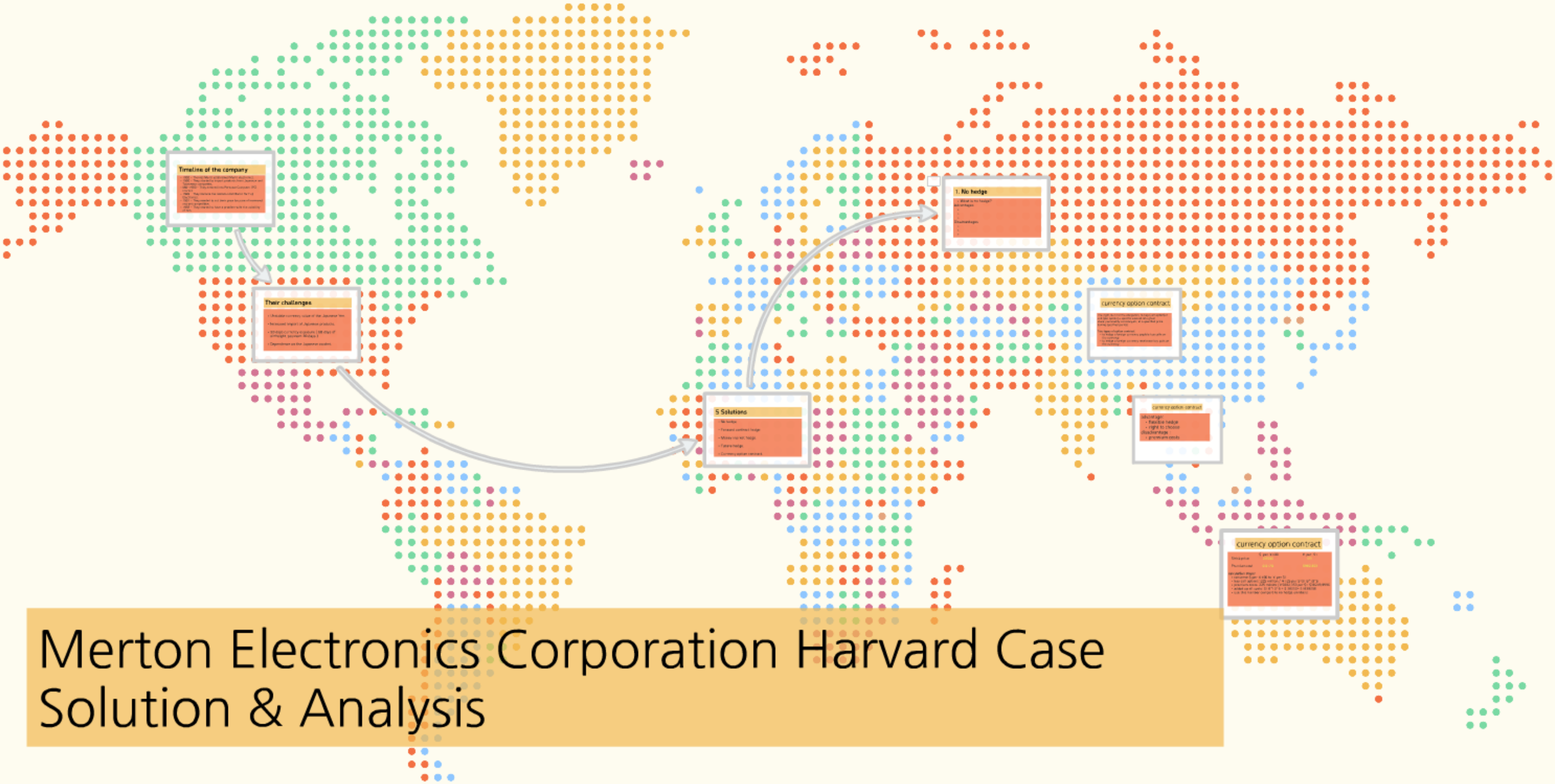


# Merton Electronics Corporation Harvard Case Solution & Analysis

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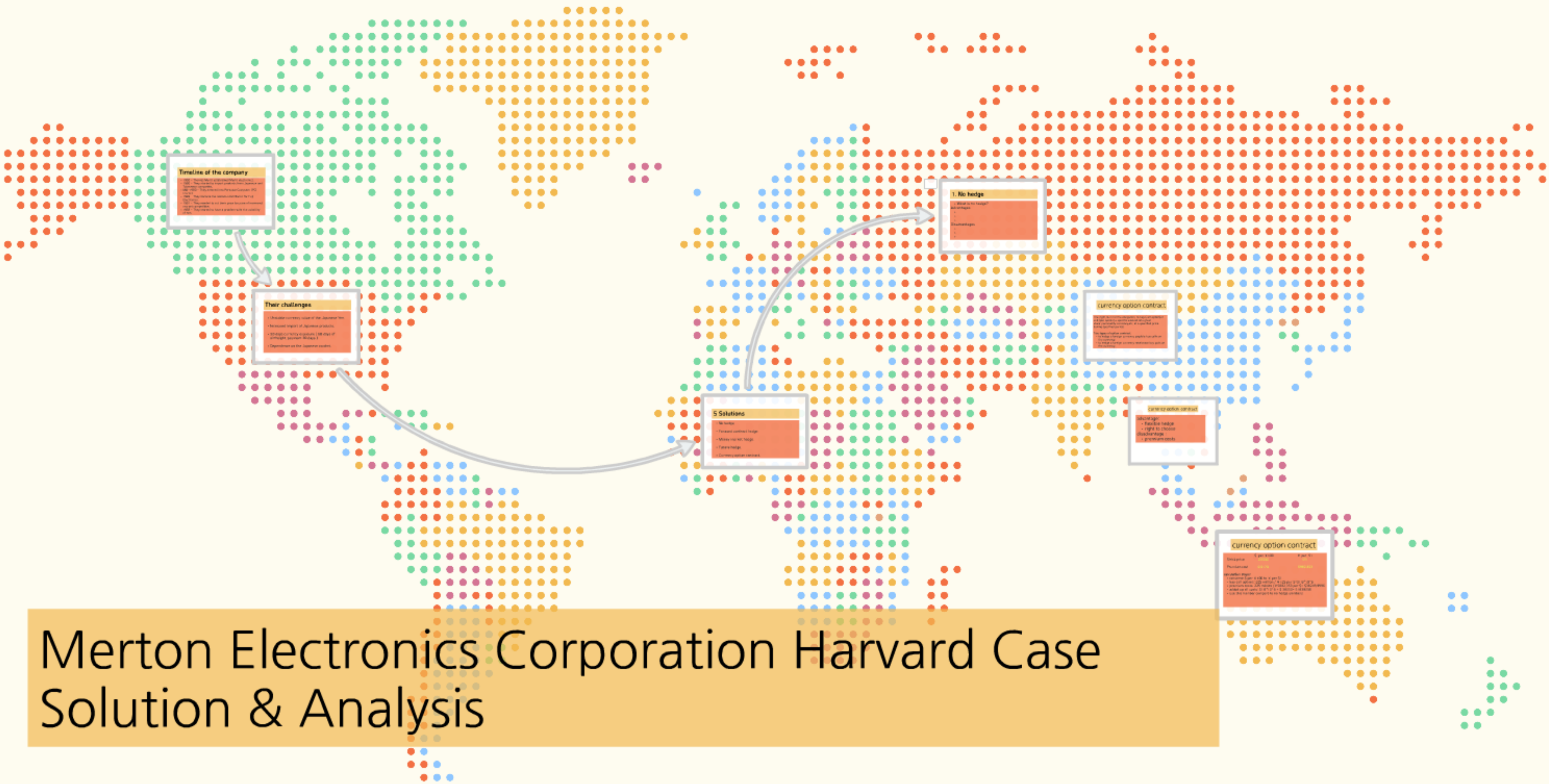


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# Timeline of the company

- 1950 - Thomas Merill established Merill 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

- 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

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

# 1. No hedge

- What is no hedge?

Advantages

- 
- 
- 

Disadvantages

- 
- 
- 

# currency option contract

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 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.

# currency option contract

| | \$ per ¥100 | ¥ per \$1 |
|---|---|---|
| Strick price | 0.8000 | 125 |
| Premium cost | 0.0170 | 5882.353 |

**calculation steps:**

- converse \$ per ¥100 to ¥ per \$1
- buy call options: 225 million / ¥125 per \$=\$1.8*10^6
- premium costs: 225 million /¥5882.353 per \$= \$38249.9996
- added up all costs: \$1.8*10^6 + \$ 38250= \$1838250
- use this number compare to no hedge unmbers