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Financial Risk Management

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Introduction

Corporate finance is the area of finance that deals with sources of funding, the capital structure of corporations, the actions that managers take to increase the value of the firm to the shareholders, and the tools and analysis used to allocate financial resources. The primary goal of corporate finance is to maximize or increase shareholder value.

Correspondingly, corporate finance comprises two main sub-disciplines.[citation needed]Capital budgeting is concerned with the setting of criteria about which value-adding projects should receive investment funding, and whether to finance that investment with equity or debt capital. Working capital management is the management of the company's monetary funds that deal with the short-term operating balance of current assets and current liabilities; the focus here is on managing cash, inventories, and short-term borrowing and lending (such as the terms on credit extended to customers.

The terms corporate finance and corporate financier are also associated with investment banking. The typical role of an investment bank is to evaluate the company's financial needs and raise the appropriate type of capital that best fits those needs. Thus, the terms "corporate finance" and "corporate financier" may be associated with transactions in which capital is raised in order to create, develop, grow or acquire businesses. Recent legal and regulatory developments in the U.S. will likely alter the makeup of the group of arrangers and financiers willing to arrange and provide financing for certain highly leveraged transactions

Financial risk management covers econometric and mathematical tools and methodologies a business entity uses to assess, value and monitor financial risks in capital markets activities. These risks could include market and credit risks. Market risk arises from security price fluctuations, and is calculated by tools such as VaR (Value at Risk), Monte Carlo simulation and stress testing. Credit risk originates from counter-party -- or business partner -- defaults, and is computed by internal models.

A financial institution is a firm that engages primarily in lending, trading, investing or advisory activities on behalf of clients or for the firm's own benefit. A financial firm could be a bank, a hedge fund, a mutual fund or an insurance company. A financial institution is usually regulated by government entities, central banks and industry overseers.

Research analysts and investment bankers aid institutional investors in exploring and investing in emerging markets. Emerging markets are international financial markets or countries that haven't reached a development status similar to Japan and the U.S., but are showing signs of economic progress. Financial experts group the four major emerging markets under the acronym of BRIC: Brazil, Russia, India and China. However, the world is continually changing. According to "Bloomberg News," some economists predicted in 2014 that China would soon surpass the economy of more established markets and outpace the U.S. by 2024.

You would have heard a lot about the term “Corporate Finance”, if you belong to the finance domain. Corporate Finance forms the most basic component of how a business is run. I am sure you would be interested to know why. But before we dig into the details of this broad area, let’s take this example. Suppose you want to start a business. Let me ask you this, apart from the skills and ideas that you would require to begin with it, what is the other most basic element required? Yes, it’s quite simple, the answer is money. Any economic activity whether big or small requires finance, rightly considered to be the lifeblood of business. There are various sources through which you would raise funds such as your personal savings, borrowing from friends, family, etc. You would not only require finance to start your business as promotional finance but also as development finance to sustain in the long run. This same concept applies to corporations. Read on to get a gist of all you wanted to know about Corporate Finance and any inhibitions you have had regarding it.

In short as a corporate financier you would be working for a company to aid them find sources through which funds could be raised, expand the business, plan the future course of actions, manage money and ensure sound profitability and economic viability.

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