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Commentary

International Finance Scope, Importance, Advantages and Disadvantages

Gandolfo Macmillan*

Department of Finance, University of New York, New York, USA

DESCRIPTION

International finance, sometimes known as international macroeconomics, is the study of monetary interactions between two or more countries, focusing on areas such as foreign direct investment and currency exchange rates

• International finance is the study of monetary interactions that transpire between two or more countries.

• International finance focuses on areas such as foreign direct investment and currency exchange rates.

• Increased globalization has magnified the importance of international finance.

• An initiative known as the Bretton Woods system emerged from a 1944 conference attended by 40 nations and aims to standardize international monetary exchanges and policies in a broader effort to nurture post World War II economic stability.

Scope of international finance

As there are many prospects that come into the picture and there is the scope it books profits and benefits from each of these prospects accordingly.

• It is important while determining the exchange rates of the country. This can be done against the commodity or against the common currency.

• It plays a crucial role in investing in foreign debt securities to have a clear idea about the market.

• The transaction between countries can be significant in assessing the economic conditions of the other country.

• The arbitrage in tax, risk, and price due to market imperfections can be used to book good profits while transacting in international trade.

Importance of international finance

International finance plays a critical role in international trade and inter-economy exchange of goods and services. It is important for a number of reasons, the most notable ones are listed here −

• International finance is an important tool to find the exchange rates, compare inflation rates, get an idea about investing in international debt securities, ascertain the economic status of other countries and judge the foreign markets.

• Exchange rates are very important in international finance, as they let us determine the relative values of currencies. International finance helps in calculating these rates.

• Various economic factors help in making international investment decisions. Economic factors of economies help in determining whether or not investors' money is safe with foreign debt securities.

• Utilizing IFRS is an important factor for many stages of international finance. Financial statements made by the countries that have adopted IFRS are similar. It helps many countries to follow similar reporting systems.

• IFRS system, which is a part of international finance, also helps in saving money by following the rules of reporting on a single accounting standard.

• International finance has grown in stature due to globalization. It helps understand the basics of all international organizations and keeps the balance intact among them.

• An international finance system maintains peace among the nations. Without a solid finance measure, all nations would work for their self-interest. International finance helps in keeping that issue at bay.

• International finance organizations, such as IMF, the World Bank, etc., provide a mediators' role in managing international finance disputes.

The very existence of an international financial system means that there are possibilities of international financial crises. This is where the study of international finance becomes very important. To know about the international financial crises, we have to understand the nature of the international financial system.

Greater comparability

Companies that use the same standards to prepare their financial statements can be compared to each other more accurately. This is especially important when comparing companies located in different countries, as they might otherwise be using different rules and methodologies to prepare their statements. This increase in comparability has helped investors better determine where their investment dollars should go.

Correspondence to: Gandolfo Macmillan, Department of Finance, University of New York, New York ,USA, E-mail: gandolfomac@just.edu
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More flexibility

A principles-based philosophy means that the goal of each standard is to arrive at a reasonable valuation and that there are many ways to get there. This gives companies the freedom to adapt IFRS to their particular situation, which leads to more easily read and useful statements.

Disadvantages of international finance

Political turmoil in one country which is a stakeholder of international trade can affect the other stakeholder of the same trade-in another country.

- Depending on other country's exchange rate is always risky given that all the currencies have significant volatility.

- The credit risk because of international trade should be careful

- As there is more than one culture involved, there will be cultural differences which if not tackled properly can damage the reputation of the brand.

It requires the financial world to regain trust and confidence from just about any part of society, as well as a process that will eradicate some of the least acceptable behavior and implement a risk management culture.