Finance, Accounting, and Banking

Student’s Name

Institution

Date

**Introduction**

Risk analysis is an essential factor for Multi-National Company (MNC) to consider before investing in a foreign market. It helps senior management to identify risk sufficient in advance to help a Multi-National Company to limit loses. According to Phung (2019), political and financial risks, a Multi-national Company should consider before investing in a foreign nation. Political risk occurs when a country changes policies that might affect businesses operation. It also includes political unrest, corruption change of tariffs and labor laws. The financial risk which affects Multi-National Company in a foreign nation is foreign exchange rates, unemployment, and inflation rate and market competition. As stated by Hood & Nawaz (2004), MNC needs to conduct intensive research to understand both financial and political risk the company would incur before investing in a foreign nation.

**Political Risk**

Most companies are caught unaware of the political situation in a foreign nation. It is, therefore, important for MNC to research political risk provides detailed condition in a foreign nation. This would help in limiting loses by taking various measures helpful to the growth of the company. For instance, any company intends to invest in the United Kingdom (UK) must analyze the impact of Brexit on the growth of the company. Brexit is a political issue being faced by companies operating in British and therefore, it is important to understand its impact for efficient operation and to draft measures. No matter the kind of political risk a multi-National Company might face, it is important for a company to be prepared. As stated by Ebel (2012) unpreparedness of a Multi-National Company (MNC) can result in a lot of loses.

**Financial risk**

The financial risks which affect MNC in a foreign nation are inflation, unemployment, and foreign exchange. Investing in a foreign requires an understanding of the market and therefore, it is important to analyze the inflation, employment, and exchange rate. The inflation rate determines the purchasing power of customers (Avarmaa, Hazak, & Männasoo, 2011). Countries experiencing high inflation rate usually have low purchasing power. It is, therefore, important to invest in a country with low inflation and unemployment rate. The monetary issues are also essential for the growth of Multi-National Company (MNC) and therefore, a company needs to analyze momentary policies which affect the foreign exchange in the country (Chen, 2019). A country with an unstable exchange rate and fluctuating inflation rate can negatively affect the operation of companies. It is, therefore, important to understand the performance of these matrixes before making any decision on whether to invest or not.

**Source Income for the venture**

There are several sources of income for investment in a foreign nation a Multi-National Company could consider. According to Cherin & Combs (2014), the best source of income for investment are profits raised by the company, long term credit from a bank and also raising funds from the investor to establish a venture in a foreign country. However, it would be important for the company to take an equity investment for foreign ventures. The equity financing would be the best financial model for the venture an MNC should take. This is because the company can share loses with the partners or shareholders. Multinational Company should consider the budget for asset and the operating expenses when seeking for a source of income (Booth, 20110). The overall expenses for establishing business operation would determine the amount which a company would get from investors. The cost of capital would be an estimate based on the foreign exchange rate, the operating expenses and the total cost of the assets required for the business to be established.

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