

U3.14 - Print & Cut Flashcards

Cut along the card edges. Each card shows the question on top and the answer underneath.

CARD 1

What are the three strategies for minimising financial risk in export markets?

Documentation, insurance and hedging.

CARD 2

What is documentation and which financial risk does it mainly reduce?

Documentation uses formal written records to clarify payment and delivery obligations. It mainly reduces non-payment risk by creating evidence of agreed terms and, in some arrangements, linking payment to export documents.

CARD 3

What is an export or sales contract?

A written agreement that sets out the product, quantity, price, currency, delivery terms, payment date, responsibilities and dispute arrangements. It reduces disputes and makes payment obligations clear.

CARD 4

What is a documentary letter of credit?

A payment arrangement where the importer's bank promises to pay the exporter if the exporter provides documents that exactly meet the letter-of-credit conditions.

CARD 5

What are documents against payment?

The exporter ships the goods but the importer receives the shipping documents only after payment. This reduces non-payment risk, although the bank does not guarantee payment.

CARD 6

What is insurance and how does it minimise export financial risk?

The exporter pays a premium to transfer part of a covered financial risk to an insurer. If a covered loss occurs, compensation can reduce the impact on cash flow and profit.

CARD 7

What are the main types of insurance relevant to export markets?

Export credit insurance, trade credit insurance, political risk insurance, marine cargo insurance and product liability insurance.

CARD 8

What is hedging and which financial risk does it mainly reduce?

Hedging reduces exposure to currency fluctuations between agreeing an export sale and receiving payment, improving certainty over future Australian-dollar revenue.

U3.14 - Print & Cut Flashcards

Cut along the card edges. Each card shows the question on top and the answer underneath.

CARD 9

What is a forward exchange contract?

An agreement that locks in an exchange rate now for a foreign-currency payment to be received later. It provides certainty over the Australian-dollar value of future export revenue.

CARD 10

What is a currency option?

It gives the exporter the right, but not the obligation, to exchange currency at a set rate in the future, providing protection while allowing benefit from a favourable exchange-rate movement.

CARD 11

How can invoicing in Australian dollars reduce currency risk?

The overseas buyer pays in AUD, so the exporter avoids converting a foreign-currency payment back into Australian dollars. The currency risk is shifted more toward the buyer.

CARD 12

Which strategies mainly target non-payment and which target currency fluctuations?

Documentation and insurance mainly protect against non-payment and related export losses. Hedging mainly protects against currency fluctuations.