Cash Flow Risk Management – In Good Times and Bad

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Abstract

Non-financial businesses face a variety of financial risks to their cash flow in good times, but in times of extreme economic volatility, proper risk management can mean the difference between survival and bankruptcy. This paper will review a risk management theory that deals with correlated, non-normally distributed factors, and then apply risk management techniques to the U.S. steel industry using futures contract hedging, which reduces a company's risk and increases profit during the worst part of the 2007-09 recession.

Keywords: Supply and demand shocks, futures derivatives, optimal hedging, U.S. steel industry, filtered historical simulation, GARCH(1,1).