



CRS Report for Congress: Derivatives, Risk Management, and Policy in the Energy Markets: May 16, 2003 - RL31923

By Robert L Pirog

Bibliogov, United States, 2013. Paperback. Book Condition: New. 246 x 189 mm. Language: English . Brand New Book ***** Print on Demand *****.Risk management is important in the energy industries because of the volatility of oil and natural gas prices. Price volatility can reduce the profit of business strategies and hurt consumers. The use of financial derivatives, both traded and over-the-counter, has developed as a low cost method of hedging price risk. However, the use of derivatives has also been linked to major financial scandals and bankruptcies. Risk management strategies can be undertaken without the use of derivatives. Vertical integration of the production process, inventory control and long-term, fixed price contracts can all compensate for the effects of price volatility. Whether one of these choices, or a derivative strategy, is chosen depends on the cost and flexibility of each alternative. Derivative use has expanded rapidly both in value and volume. Market traded and over-the-counter derivatives have different characteristics with respect to their liquidity, safety, transparency and flexibility. The benefits and costs of using either instrument depends on the circumstances and goals of the firm setting up the strategy. A wide variety of derivative contracts exist, including forwards, futures, options and...



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