15.997 Practice of Finance: Advanced Corporate Risk Management
Spring 2009

Case Assignment #4: Risk Management at Apache

1. How does Apache make money? What is its competitive advantage? Why does this matter in thinking through its risk management strategy?

2. Suppose Apache is not hedged. Does this in any way disrupt its operations and investments?

3. How does hedging impact the left-hand-side of Apache's balance sheet, if at all? What impact does hedging have on Apache's operations and investments, on its implementation of its strategy.

4. What is the difference between these 3 hedging strategies: (i) futures or forward sale, (ii) put option protection, (iii) costless collar? Is there any impact on Apache's underlying operations and investments?

5. What is the role of hedging in executing acquisitions? Should Apache limit its hedging to acquisitions, or expand its hedging program to cover all of its operations?

6. How would you quantify the benefits of hedging? How do these benefits change with Apache's forecast for oil and gas prices?

7. What are the costs of hedging? Are these borne by the shareholders? Does that depress the share price today?