ABSTRACT

Risk management has become a significant part of a firm's policies and has grown due to marketplace globalisation. The firm needs less external funding when they hedge or apply risk management policies, and as a result, firms can invest in more risky projects to earn profits. This study is conducted to analyze whether cash holdings and hedging can be used as alternative solutions or not for risk management purposes. Further investigation is conducted to analyze the effect of hedging on the firm's cash reserves. The secondary data is taken from annual reports of 8 years (2011-2019) of 84 Chemical sector companies (most recent available data) listed on the Pakistan Stock Exchange. The generalized least square method is applied to the selected four models. As a result of the estimation, this study found that hedge firms hold a minuscule amount of cash than those who do not hedge, and hedge firms decrease their cash reserves. So, in conclusion, we can state that cash holdings and hedging can be used as alternatives—results from previous literature also second findings of this study.