

ABSTRACT

In a globalized market, risk management has grown significantly and become an essential part of the organization's corporate strategies. The incentives for engaging in risk reducing activities, reduced agency costs and misuse of financial resources. The protective motive for cash holding, firms must make certain stable and protected access to financial resources for future investments.

This is most prominent for firms with high investment opportunities, and firms who rely on R&D and high capital expenditures to support future operations. Risk management, and hedging in particular, reduces the need for costly external funding, letting firms invest in risky projects. This study is designed to look at whether hedging and cash holdings can be seen as substitutive risk management tools in the manner that hedgers are allowed to hold lower cash reserves. The study also examines if this relationship is strengthened under possible underinvestment problems.

In this research, try to find that cash holding and hedging work as a substitute of each other and also work as a risk management tools in the prospective that hedgers are allowed to hold lower cash reserve. In this research also examines that relationship is strengthened under possible underinvestment issues or not. With a deductive approach, I investigate the effect hedging has on cash holdings using linear regression analysis (Generalized Method of Movements (GMM) Technique). Based on this the results have highlighted that investment opportunities, tax of firms, size of firms, return on assets shown positive relationship with cash holding and hedging, hedging investment opportunities, expected default frequency, dividend shown negative relationship with cash holding. The results have also highlighted that cash holding will work as risk management tool for financial sector of Pakistan by using this research model.

Keywords: *Cash Holdings, Risk Management, Hedging, Investment Opportunities, Hedging Investment Opportunities, Underinvestment problems,*