

Sources of Market Risk

Market risk is a type of systematic risk which is uncontrollable by nature and it arises from the following major sources:

(A) **Interest Rate Risk** – It is the risk arising due to change in interest rates.
Example: If interest rates increases, bond prices fall.
Types: Repricing risk, Yield curve risk etc.

(B) **Equity Price Risk** - Risk of fall in share prices.
Example: Company invests in stock market. Market crashes → Value declines.

(C) **Foreign Exchange Risk** - Risk due to change in exchange rates.
Example: Indian exporter receives payment in dollars. If dollar value falls, exporter loses money.

(D) **Commodity Price Risk** - Risk due to fluctuation in prices of Oil, Gold, Agricultural products. Example: Airline companies face risk when fuel prices rise. This affects various sections of people like producers, buyers, exporters, government etc.