

## 1. Introduction

Taiwan is a small island with limited natural resources and small scale of domestic demand of economy. To keep developing the economy, we can not let the management of companies limit in small and domestic demand of economy. We may specialize in developing advantageous industries based on the law of comparative advantage and positively promote those products to overseas markets. In this way, we could break through the limits in Taiwan.

As the domestic government tries to liberalize and internationalize its product and financial market, Taiwan now is a small open economy with high degree of trade dependency. When it comes to foreign trades, the changes in exchange rates play an important role. The fluctuations in foreign exchange rates directly affect the current and future expected cash flows of exporting and importing firms by changing the relative prices of domestic and foreign goods. Besides, if firms hedge effectively against exchange-rate fluctuations, they may not suffer from serious exchange losses.

The electronic firms, which are the main exporting firms in Taiwan, tend to suffer from exchange rate risk on their profits. In this study, using monthly data, we will try to examine how many electronic firms are exposed to exchange-rate fluctuations. Moreover, we also explore whether the exchange-rate exposure of electronic firms is varying and what may be possible determinants.

The rest of this study proceeds as below. In section 2, we generally review some related literatures. In section 3, we try to examine the exchange-rate exposure of individual firms via different models. In section 4, we discuss some possible determinants of exchange-rate exposure. Finally, in section 5, we make some conclusions about this study.