1) Liquidity preferences refer to preference of investors to hold liquid assets rather than securities or long term bearing investments

Eg:- Investors often tend to demand a higher interest rates or premium on securities with long term maturities that carry greater risk.

Investors prefer cash or highly liquid holdings

3) The factors that influence the dividend policy of a company are as follows:

i) Stock market - adverse reaction to dividend cuts & policies

ii) growth opportunities - if we exist ~~@~~ we it may be better to retain profits

iii) Stability & consistency with provision dividends

iv) Investors prefer dividends because of taxation of capital gains.

4) Types of Business entities

i) Sole trader - Owned by a single person unlimited liability & is not a limited company

ii) Partnership - Owned by more than one person, partners are equally liable.

iii) limited company - Owned by shareholders, limited liability, legal identity

iv) limited liability partnership (LLP) - separate legal identity, owned by members of company.

5) He should start as a sole trader because he has to pay a normal income tax in respect of business while in a limited company. Company has to pay tax on profit & employees also have to pay tax on their salaries.

6) Modigliani & Miller irrelevance proposition

i) The market value of a firm is independent of its capital.

ii) Expected rate of return of a stock of a firm increases in proportion to debt equity ratio.

7) Working capital is cash or other liquid assets that business uses to cover day to day operations like paying bills and payrolls of employees.

Fixed capital include the assets or investment needed to start & maintain a business like plant, property etc.

10) Scenario 2 is better than Scenario 1 because of time value of money.

If we lose 2000 rs. and then get back we will lose some money.

4) → Price of damaged or spoiled goods
→ Storage space
→ labour
→ Insurance