ROSHAN MEHTA

46

PAGE No
DATE / 202

ASSIGMENT-2

Business Finance -1

Q1) i) Liquidity Prefrence is a model that suggests that an investor should demand a highore interest rate or premium on securities with ~~tog~~ long-term maturities that carry greater risks, investors prefer cash or highly liquid holdings.

Q3) Factors affecting dividend policy of firm

i) Type of industry

ii) ownership structure

iii) Profitibality

iv) Leverage

v) debt

vi) Taxes

vii) Age of corp.

Q4) Major types of business entities are:-

Sole proprietorship, General Partnership, ~~Limited~~ ~~Partnership~~, Corporation, LLP (Limited Liability Partnership).

PAGE No
DATE : / 202

Characteristics:

① Sole proprietorship → All profits are subject to owner.

Owners have total flexibility when running business

Owner is 100% liable for debts.
Equity is limited to owner's personal resources.

② Partnership:- Shared resources provides more capital for business.

Each partner shares the total profits.

Each partner is liable for 100% profits & losses.

Partnership ends when any partner decides to end it.

③ Corporation:- Limits liability for owner

Profits and losses belong to corporation.

Corporate operations are costly.
Establishing a corporate is costly.

(4) LLP/LLC:- Limits Liability to company owners for debts & losses

~~Limit~~ Profits are shared without double-taxation.

Ownership is limited by certain state laws.

Q5) Sole-proprietors net-income is taxed on individuals income. A single LLC is a disregarded entity for tax that is it is taxed same as sole proprietorship. But sole-proprietorship and single member -LLCs may claim tax deductions.

He should go for ~~sto~~ sole Trader as tax isn't really a major role in choosing but as LLC would have more than one member it would be taxed higher

PAGE No
DATE: / 202

Q6) Modigliani - Miller state that company's capital structure is not a factor in its value

(Proposition 1)

$$V_L = V_U$$

V_U = Value of unlevered firm

V_L = Value of Levered firm

The first proposition claims that the company's capital structure does not impact its value. Since the value of a company is calculated as the present value of future cash flows,

(Proposition - 2)

$$\left[r_E = r_A + \frac{D}{E} (r_a - r_D) \right]$$

r_E = Cost of levered equity

r_a = Cost of unlevered equity

r_D = Cost of debt

D/E = Debt-to-equity ratio

PAGE No
DATE: / 202

It states that company's cost of equity is directly proportional to company's leverage levels.

Investors tend to demand higher cost of return to be compensated for additional risk.

Q7) Fixed capitals include assets or invesments needed to start and maintain a business, like property or equipment.

Working capital is cash or liquid assets that covers daily operations like payrolls and paying bills.

Q8) Economies of scale are cost advantages ~~reaped~~ reaped by companies when production becomes efficient. Companies can achieve economies of scale by increasing production lowering costs. Costs can be both fixable and variable.

Q9)

Q10) Scenario2: Neither of events

I ~~prep~~ prefer this because I'd rather not experience any panic of loosing money only to find out next day. ~~as there~~ Also there wont be much change in the value of the currency.

PAGE No
DATE / / 202

Q11) Holding costs are costs associated with unsold inventory. ~~Agg~~ Minimizing this is an important step for supply-chain & management ~~sto~~ Strategy.

- Costs of buying excess supply could become quite high and higher taxes.

- Major ~~reas~~ reason of oversupply.