Business Finance-1

Assignment 2

1) Liquidity Preference
It states the investor will expect high interest rate when there is investment in long term asset, which has high risk associated with it

2) Yes, Listing is likely to affect the dividend policy of the company. This is because as the company gets listed the number of shareholders increase and therefore company would need to satisfy the wants of the shareholders and usually after getting listed company is likely to pay more of the cash dividends

Conflict of interest affects a risk management program by the agency theory, company's management would like to less risk and play safe to make sure there position in the company and shareholders want company to take sufficient risk in order to grow and that will increase the wealth of the shareholders which is the ultimate goal for shareholders

3) Factors that can influence dividend policy of the company are:

- Stock market - Stock markets display significant adverse reactions to announcements of dividend cuts. If the stock market is focused on the short term, it is possible that investors will reward companies that pay high dividends with a high share price.
- Cash Reserves - Companies with large cash reserves that fear a takeover bid may well distribute generously to both encourage shareholder loyalty and limit the size of the 'cash pile'. A cash pile is seen by investors as a sign of weakness.
- Tax - Companies with a large proportion of non-tax paying shareholders may feel it appropriate to distribute a large proportion of earnings.
- Growth opportunity - Companies in high-growth industries may find that the demands for capital investment to maintain competitive advantage exceed their capacity to borrow on satisfactory terms and may prefer to pay low dividends rather than making frequent rights issues.

- Stability - Since companies with high dividend policies tend to attract investors who seek high payouts any move from one category to the other will cause adverse market reaction as investors readjust their portfolios.

4)

	Sole Proprietor	Partnership	Joint Hindu Family Business	Joint Stock Company	Limited Liability Partnership
Ownership	Single	2 or more partners	Entire Joint Hindu Family	Shareholders	2 or more partners
Liability	Unlimited	Unlimited	Unlimited for Karta and limited for all others	Limited	Limited
Legal Status	Not a separate legal entity	Not a separate legal entity	Not a separate legal entity	Separate legal entity	Separate legal entity

5) Keeping tax in mind I would suggest to go for sole proprietorship over limited company as the sole proprietor has to pay only personnel income tax whereas the owners of the limited company have to pay corporation tax as well as personnel income tax

6) The irrelevance proposition theorem is a theory of corporate capital structure that was developed by Merton Miller and Franco Modigliani in 1958. This theory states that the capital structure of a company does not affect its value.

7) Fixed capital includes the assets or investments needed to start and maintain a business, like property or equipment. Working capital is the cash or other liquid assets that a business uses to cover daily operations, like meeting payroll and paying bills

8) Economies of scale are the cost advantages that enterprises obtain due to their scale of operation, and are typically measured by the amount of output produced. A decrease in cost per unit of output enables an increase in scale. At the basis of economies of scale there may be technical, statistical, organizational or related factors to the degree of market control.

9) Consequences of requiring the pension fund/ investment company to report its financial position annually rather than triennially are that costumers should have the surety of the money is being rightly used and their investment is going in right direction annually

10) I would choose scenario 2, as losing ₹2000 today and finding it tomorrow will leave you in the similar position as before but you lose the opportunity of spending those 2000 today and lose the mental peace for a day too

11) Possible cost of holding buffer inventory / stock of goods are : Shortage cost , labour , insurance etc