Assignment - 2

Q1) Liquidity preference :-

In economics, the premium that wealth holders demand for exchanging ready money or bank deposits for safe, non-liquid assets such as government bonds.

e.g.

If interest rates are rising and bond prices are falling, an investor may sell their low paying bonds and buy higher.

Q3) Factors affecting the dividend policy of a company :-

① Earnings:-

Dividends are paid up out of current and previous year's earnings. If there are more earnings then company declares high rate of dividends whereas during low earning period the rate of dividend is also low.

② Stablity of earnings:-

Companies having stable or smooth earnings prefer to give high rate of dividend whereas companies with unstable earnings prefer to give lowe rate of earnigs.

③ Cash flow position :-

Paying dividend means outflow of cash. Companies declare high rate of dividend only when they have surplus cash. In situation of shortage of cash companies declare no or very low dividend.

④ Growth opportunities :-

If a company has a number of invenstment plans then it should reinvest the earnings of the company.

5) Stability of dividend :-

Some companies fallow a stable dividend policy as it has better impact on shareholder and improves the reputation of company in the share market.

05) The individual should opt for stole proprietorship instead of floating a limited company as the former pays less taxes. This is because a corporation is treated as a separate entity meaning that it has to pay state as well as fedral taxes on the money it earns.

Q6) The irrelavance prepositions theorem is a theory of corporate capital structure that posits financial levarage dose not affect the value of a company if income tax and distress costs are not present in the business ~~and~~ environment. The irrelavance proposition theorem was developed by Merto Miller and Franco Modigliani, and was a premise to their Nobel prize winning work.

Q7) Working capital :-
Working capital is known as the diffrence between a company's current assets such as cash, accounts recivable / customer' unpaid bills, and inventories of raw materials and finished goods and its current liabilites, such as accounts payable and debts.
Fixed capital :-
Fixed capital includes the assets and capital investments, such as property, plant and equipment, that are needed to start up and conduct bussiness, event at a minimal stage.

Q8) Economies of scale are cost advantages reaped by companies when production becomes efficient. Companies can acheive economies of scale by increasing production and lowering costs. This happens because costs are spread over a larger number of goods.

9) If a pension fund or investment company must report its financial position every year, it may be more ~~ad~~ averse to very short-term investment losses than if it had to report only every three years. The consequence of this might be to force the fund to invest in less volatile assets to reduce the risk of having to report a poor financial position. It might therefore result in the fund investing less heavily in equities, and possibly also less heavily in long-term bonds.

10) Scenario 2 is preffered over 1 as in the first case we've potentially losing out on the time value of money even if its for a very insignificant amount of time. In the second scenario we can potentially invest the 2000 rupees and earn some amount in that one day even if it's a small amount of time.

11) Holding costs are those associated with storing inventory that remains unsold. The costs could include:

- Price of damaged or spoiled goods
- Stroge space
- Labor
- Insurance.