BF Assignment 2.

Q1) i) Liquidity Preference:-

→ Liquidity Preference Theory is a model that suggests that an investor should demand a higher interest rate or premium on securities with long-term maturities that carry greater risk because, all other factors being equal, investors prefer cash or other highly liquid holdings.

For eg:- If interest rates are higher, investors give up liquidity in exchange for higher rates. If rates are rising and bond prices are falling an investor may sell their low paying bonds and buy higher paying ones / hold onto cash waiting for better rate of return.

Q2) For unlisted companies, dividends are more like a financing decision as:

- The company doesn't have the option of raising further funds in the stock market.
- The borrowing powers of unlisted companies tend to be more restricted.
- Shareholders of unlisted companies cannot sell some shares in the market to replace dividend income.

Q3) Factors influencing dividend policy of a company:-

(1) Stock Markets:- Display significant adverse reactions to announcements of dividend cuts.

(2) 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'.

(3) Tax:- Companies with a large proportion of non-tax paying shareholders may feel it appropriate to distribute a large proportion of earnings.

(4) Growth Opportunities:- 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.

(5) Stability and consistency:- 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.

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Q4) Various types of Business Entities:-
1) Sole proprietorship
2) Joint Hindu family business
3) Partnership
4) Joint stock company
5) Limited liability partnership

Ownership:- 1) Sole traders
2) 'Karta' - head of family.
3) More than one partner
4) Shareholders
5) 2 or more members

Liability:-
1) Unlimited liability
2) Limited except for the karta
3) Unlimited
4) Limited to the fully paid value of shares.
5) Limited

Legal Status:-
1) No specific documentation needed
2) No documentation since family business.
3) Partnership Agreement is needed.
4) Memorandum of Association & Articles of Association.
Audited Accounts every year.
5) Partnership Agreement.

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Q5) He should opt for an Limited Liability company than sole tradership.
- It itself is responsible for assets and liabilities.
- No need of Memorandom, for legal status.
- It is taxed similar to conventional partnerships.
- comparitively lesser than that of the sole traders.

Q6) Modigliani and Miller's irrelerance prepositions:-
1st - The market value of any firm is independent of its capital structure.
2nd - The expected rate of return on the common stock of a leveraged firm increases in proportion to the debt-equity ratio, expressed in market values.

Q7) Working Capital:-
The capital of a business which is used in its day-to-day trading operations, calculated as the current assets minus the current liabilities.

Fixed Capital:- Fixed capital is the assets and capital investments, such as property, plant and equipment that are required to startup and conduct business, initially.

Q8) Economies of Scale:-
when more units of a good or service can be produced on a larger scale, yet with (on average) fewer input costs, economies of scale are said to be achieved.

Q9) - In a triennium financial report they would bring together the figures for the full triennium in a table of audited figures for first year, preaudit final figures for 2nd year and an estimated year and position for the year of world conference.
- If it was to be done every year, i.e annually, it would have been done in quarters, and even if it would have been more detailed but a hell lot of work actually.

Q10) I think I would prefer the ~~secon~~ first scenario.
- If i lost 2000 today and found 2000 tomorrow it made no difference actually.
- But considering the fact that I might find those 2000 somewhere. I lost them, or if I remembered where I'hd left those, would give me more

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happiness and ofcourse more money rather than nothing ever happening that was the second scenario.

Q11) - Holding costs are costs associated with storing unsold inventory.
- A firm's holding costs include storage space, labor and insurance, as well as the price of damaged or spoiled goods.
- Minimizing costs of inventory is an important supply-chain management system.
- It could become quite high for the government and may require higher taxes.
- Minimum prices and bufferstocks could encourage oversupply as farmers know any surplus will be bought.
- Government subsidy to farmers may encourage inefficiency amongst farmers are some problems of buffer stocks!

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