Mid Term Assessment

Fall Semester : 2022

BBA Program

Course title : Introduction to finance

Course code : FIN - 322

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Part - A

Answer to the question No: 1

Finance : Finance is the process of raising funds or capital for any kind of expenditure. It is the process of channeling various funds in the form of credit, loans, or invested capital to those economic entitles that most need them or can put them to the most productive use.

The 6A's of finance :

1. Anticipating financial needs.
2. Acquiring financial resources.
3. Allocating funds in business.
4. Administrating the allocation of funds.
5. Analyzing the performance of finance
6. Accounting and reporting to the top management.

Answer to the question No: 2

Time value of money : Time value is based on the belief that money today is worth more than an amount that will be receive at some future date. We devote of study of time value in finance by considering two views of time value future value and present value, the computational tools used to streamline time value calculation and the basic patterns of cash flow.

Scholar's says, ' time value is based on the beliefs that a dollar today is worth more than a dollar that will be received at some future date.

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Time preference of Time Value of Money:

The value of a sum of money received today is more than its value received after some time. The present value of money received after some time will be less than money received today. the time value of money may also be returned to time preference theory. the following reason to the time preference are to be found.

1. Risk and uncertainty.
2. Consumption
3. Inflation
4. Investment opportunities.
5. Required Rate of Return.

Answer to the question No : 5

Solation :

$$FV = PV\left(1+\frac{R}{M}\right)^{N \times M}$$

where,

FV = future value

R = Rate of interest = 8% = .08

N = Number of years (5)

M = Multi-period compunding of years (4, 6)

Quarterly Compounding

$$FV = PV\left(1+\frac{R}{M}\right)^{N \times M}$$

$$= 6000\left(1+\frac{.08}{4}\right)^{5 \times 4}$$

$$= 6000\left(1+.02\right)^{20}$$

$$= 6000 \times 1.4859$$

$$= 8915.4 \text{ tk}.$$

P.T.O

Biomonthly Compounding

$$FV = PV\left(1+\frac{R}{M}\right)^{N\times M}$$

$$= 6000\left(1+\frac{.08}{6}\right)^{5\times 6}$$

$$= 6000\left(1+.013\right)^{30}$$

$$= 6000 \times 1.4733$$

$$= 8839.64 \text{ tk.}$$

Answer to the question No: 6

Different component Sources of Risk:

Risk is the degree of uncertainty associated with something happening or a situation in which there is exposure to possible loss. The sources of risk can be devided mainly two parts, which are given below:

A. Systematic Risk: Systematic Risk is attributed to a common factor that affects all assets similary and cannot be eliminated by diversification. Systematic risks are discussed below:

1. Market Risk: Market Risk is the variability in returns resulting from fluctuations in the overall market price of financial assets.

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2. Default Risk: Default Risk arises when a firm unable to repay the principle loan amount to the lender.

3. Interest Rate Risk: Interest Rate Risk defined as the fluctuation in market price of fixed income based securities owing to changes in level of interest rate.

4. Liquidity risk: The chances that an investment can not be easily sale at a reasonable price.

5. Exchange Rate Risk: Exchange Rate risk is defined is the variability in return on security caused by currency fluctuation.

6. Purchasing power Risk: Purchasing power risk can be defined as the uncertainty of purchasing power of the amount to be received.

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7. <u>property risk</u>: person owing property are exposed to property risk, the risk of having property damaged or lost from numerous causes.

8. <u>political Risk</u>: The political risk is defined as the uncertainty due to possibility of major political change in the country where investment would be affected.

B. <u>Unsystematic Risk</u>: Unsystematic is risk is unique to a particular asset and can be eliminated by diversification. Unsystematic Risk are discussed below:

1. <u>Business Risk</u>: Business risk refers to the relative variability in the farm's earning before interest and tax (EBIT). Business risk is

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caused primarily by the nature of the firms operations. Some of the primary determinants of the risk are the following :

i) Sensitivity of sale of general economic fluctuation.
ii) Degree of competition and size
iii) Operating leverage
iv) input price variability
v) Ability to adjust output prices.

2. <u>Financial Risk</u> : Financial risk depends on the amount of financing provided by creditors. the use of debt, bond, lease or prefered stock exposes the firm to more risk. financial Risk refers to ;

a i) the increased variability of earning
ii) The increased probability of financial distress.

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3. Credit Risk: Credit risk consists of business risk and financial risk. Business risk is caused primarily by the nature of the business operations. financial Risk arises from imposing the fixed costs of financing.