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Introduction to Finance-FIN 322

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Answer to the question no-1

Define the term finance there are given below:- Term finance can have multiple meanings based on context. it can refer to the time period of an investment the provisions of an agreement or contract, and lifespan assigned to an asset or liability. The term of a product can play a significant role in assessing a security's riskiness. it is the case of an equity investment, the time that elapses between the acquisition of the equity and its sale or removal from to holdings for another reason.
So a term finance can be also specify a provision or nature of an agreement or contract.
There are two types of term finance:-
(i) Long term finance:- Long-term finance can be defined as any financial instrument with maturity exceeding one year such as bank loans, bonds and public and private equity instruments.
(ii) Short term finance:- Short term finance means taking out a loan to make a purchase usually with a loan term of less than one year. different types of short term such as buy now, personal loans and payday loans.

The 6 A's of finance there are given below:-

(1) Anticipating :- it's short time weekly cash flow projections accompanied by 12-18 month driver-based financial models reveal a company's liquidity needs.

(2) Acquiring :- Acquiring financial most businesses already have existing banking relationships.

(3) Allocation :- Allocation is the funds of business in small business asset/cash allocation is more informal compared to it's big company counterparts.

(4) Administration :- The best and only practice is to have financials completed by the rock-solid accounting and financial controls.

(5) Accounting :- The best and right practice is to have financials completed by the second or third day of the new month. The financials accordingly need to be timely, accurate, and meaningful.

(6) Analysis :- Actuals should be compared to plan once the financials have been released each month. Projections and stress testing should follow. Financial analysis is ongoing so it's a very important of finance.

Answer to the question no-3

I know about risk and return there are given below briefly:-

Risk:- In financial management, the risk-return relationship is fundamental concept. risk is the uncertainty of something to happing or the possibility of a less than desirable return. In the most basic sence, risk is the chance of financial loss. And also the term risk, as used there, refers to the variability of returns.

Scholar's views to risk:-

(i) Risk is the variability of returns from those that are expected.

(ii) Risk can be defined as the chance that some unfavorable events will occur.

(iii) Risk to the variability of the actual return from the expected returns associated with a given asset.

(iv) Risk is the degree of uncertainty to associated with something happening or a situation in which there is exposure to possible loss.

so, based on the above discussion it can be said that risk is the uncertainty or the probability that actual returns will deviate from expected returns. However traditionally risk has been defined in term of uncertainty. so risk is defined here as uncertainty concerning the occurrence of a loss.

Return :- Risk and return are the most important concepts of finance. it is required to understand for valuation of financial securities and investment. The return of an investment is the income and capital gains or loss from the different between the beginning and ending market prices.

(i) Return is the income received on an investment plus any change in market price.

(ii) Return for any period is the sum of cash dividends, interest and so forth and any capital appreciation or loss.

(iii) The return on an asset for a given period is the annual income received plus and any change in market price.

so, based on the above discussion I can say that return on an investment for a given period is the income received plus capital gain/loss difference between beginning and ending market prices.

so, I think it's always importent for any works.

Answer to the question no-5

Pv = Present value = 6,000

R = Rate of interest = 8 % = ·08

N = Number of years = 5

m = multi-Period compounding of year = 6, 4

Fv = Future value = ?

Here,

Bimonthly compound

$$Fv = Pv\left(1+\frac{R}{m}\right)^{N\times m}$$
$$= 6,000\left(1+\frac{\cdot 08}{6}\right)^{5\times 6}$$
$$= 6,000\times(1+\cdot 013)^{30}$$
$$= 6,000\times(1\cdot 013)^{30}$$
$$= 6,000\times 1\cdot 4732$$
$$= 8839\cdot 2$$

quarterly compound

Here,

$$Fv = Pv\left(1+\frac{R}{m}\right)^{N\times m}$$
$$= 6,000\left(1+\frac{\cdot 08}{4}\right)^{5\times 4}$$
$$= 6,000\,(1+\cdot 02)^{20}$$
$$= 6,000\times(1\cdot 02)^{20}$$
$$= 6,000\times 1\cdot 4859$$
$$= 8,915\cdot 4$$

Answer to the question no-6

Different components or sources of risks there are given below:- Risk is the degree of uncertainly associated with something happening or a situation in which there is exposure to possible loss. The sources of risk can be divided mainly two parts, which are shown and explained below:-

Types of Risk	Sources of Risk
A. Systematic risk	1. market Risk 2. Default Risk 3. Interest Rate risk 4. liquelidity Risk 5. Exchange Rate risk 6. Purcharing Power Risk 7. Property Risk 8. Political Risk
B. unsystematic Risk	1. Business Risk 2. Financial Risk 3. Credit Risk 4. Industry Risk 5. Portfolio Risk

A. Systematic Risk:- Systematic risk is attributable to a common factor that affects all assets similarly 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.

② Default Risk :- Default risk arises when a firm unable to repay the principal loan amount to the lender. For default risk the firms may eventually go bankrupt.

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

④ Liquidity Risk :- The chance that an the investment can not be easily sale at a reasonable price. Liquidity is significantly affected by the size and depth of the market in which an investment is customarily traded.

⑤ Exchange Rate Risk :- Exchange rate of risk is defined as the variability in the returns on security caused by currency fluctuations.

6. Purchasing power Risk :- Purchasing power risk can be defined as the uncertainty of purchasing power of the amount to be received. Increasing prices on goods and services are called inflation and

decreasing prices on goods and services are called deflation.

(7) Property Risk :- Persons owing property are exposed to property risk, the risk of having property damaged or lost from in numerous causes. For example, fire, lighting etc.

(8) Political Risk :- The political risk is defined as the uncertainty due to the possibility of major political cange in the country where investment would be the affected. The chance of returns may be affected by tax rate, restrictions of funds, etc.

B. Unsystematic Risk :-

Unsystematic risk is unique to a particular asset and can be eliminated by diversification unsystematic risks and discussed below:-

(1) Business Risk :- Business risk refers to the relative variability in the firm's earnings before interest and tax. Business risk is caused primarily by the nature of the firm's operations.

(2) Financial Risk :- Financial risk depends on the amount of financing provided by creditors. The use of debt, bond, lease or preferred stock exposes the firm to more risk. The risk arises from imposing the fixed costs of financing.

(3) Credit Risk :- Credit risk consists of the business risk and financial risk. Business risk is caused primarily by the nature of the business operations.

(4) Industry Risk :- Industry risk of an asset can be considered as the risk of doing better or worse than expected return as a result of investment in a sector of the economy in a place of other sector. Industry risk impacts on Portfolio invest-ment in large and on individual investment decisions in less critical.

(5) Portfolio Risk :- The risk of an asset can be considered in two ways (i) on a stand alone basis, where the cash flows froms a number analyzed by them, or (ii) in a Portfolio context, where the cash flows from a number of assets are combined and then the consolidated cash flows are analyzed.