Understanding the concepts

Finance

Operations Management (Add (Add (Add Operations Management Both Net Present Value (NPV) and payback method canbe employed to make a good financial decision. As Sherrick, Ellinger, & Lins (2000) point out, the NPV method gives first priority to currency value while the payback method emphasizes the time required for achieving a return on the investment. As compared to concepts like time value of the money, present and future value, inflation and other financing factors the NPV method is more suitable for making good financial decisions since the payback method does not take those aspects into account. However, both of the tools are used to estimate the future returns and thereby the potential of the proposed investment. And, thus, it ultimately assists the management to arrive at a decision.

2. According to Whittington and Delaney (2010), the primary benefit of the debt financing is that it allows the firm owners to retain full power and control over their business dealings (p. 220). Debt financing does not involve complex reporting processes and, therefore, it is easy to administer. In contrast, this concept would not be beneficial for small businesses as they may find difficulty in obtaining access to potential financial sources. In addition, it would be an uneasy task for small firms to make regular monthly interest payments. Generally, organizations tend to issue stocks rather than bonds to generate funds because bonds are just debt securities while the stock is a capital asset. More precisely, bond issue would further contribute to the firm’s liability as compared to stock issue.

3. According to Harle, Luders, Pepanides, Pfetsch, Poppensieker, & Stegemann (2010), safer investments or investments having the least uncertainty may generate lower average returns, whereas investments having more uncertainty or risky investments would bring higher average

returns. Hence, the level of risk a firm takes can have a great influence on its volume of revenues. Thus, financial returns are related to risk.

4. " Beta" is the blended, overall return of a particular asset type, which may be divided further by market, sector or some other organization, such as size" (Fraser-Sampson, 2011, p. 164). In other words, it is the tool used for measuring and comparing the volatility of a security or portfolio against the market as a whole. " Beta" is computed by using regressions analysis. The " beta" higher than 1 indicates that the security's price will be more volatile, while the " beta" less than 1 indicates a less volatile price compared to the market as a whole.

5. As Dubil (2011) points out, systematic risk can be simply defined as a type of market risk that can have an impact on the whole stock market and, hence, it would be impossible to eliminate this type of risk (p. 279). In contrast, unrealistic risk is the risk which is inherent in each particular investment. Since this type of risk only affects a single investment or a company, it can be diversified away effectively.

6. In order to diversify the risk, it is advisable for a firm to invest money in different forms. I strongly recommend the corporation to invest $500, 000 in stock market and use another $50, 000 to purchase bonds. Such a strategy will definitely assist the firm to reduce the risk levels and thereby earn a good return. If the company gives more preference to safer investment rather than returns, it is advisable to use the whole money to purchase bonds.

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