

U.s. government's bailouts

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Question The article, GM Bailout was A Win For Taxpayers Outgoing CEO Says, describes the governmental bailout GM received during the 2008 economic recession. General Motors was bailout by the government because the company was facing economic problems and was nearly bankrupt prior to the \$10.5 billion injection of money the firm received from the United States government (Krisher, 2013). The company had cash flow problems and the demand for its automobiles declined a lot during the recession. Prior to the governmental bailout the company was insolvent. It had \$82 billion in assets and \$172.8 billion in liabilities (Amadeo, 2014). The debt ratio of the company was 2.11. The firm was highly leveraged which led to the high fixed costs associated with debt financing. The debt of the company was more than twice its total assets.

Question #2

Providing governmental assistance to corporations such as General Motors is a way for the government to spur economic activity. Governmental assistance can ensure that companies that are facing financial trouble keep their doors open. Prior to the governmental assistance General Motors was near shutting down their operations. In the short run companies get a capital injection that can be used to cover operating expenses which includes both variable and fixed costs. The fixed costs of the company increase in the long run if the assistance that is given is in the form of debt financing. From the perspective of the government the assistance given protects jobs and government tax revenues. In the case of General Motors the long run consequence of the bailout was that the firm had to give up a lot of equity to the government in exchange for the governmental assistance.

Question #3

General Motors has recovered well since its reorganization in 2008. The current price of GM common stocks is \$34.48 (Yahoo, 2014). The organization has a global workforce composed of 1.9 million employees. The firm is a socially responsible organization. Its product portfolio of vehicles includes hybrid / electric cars. The company on November 18, 2010 completed the world's largest initial public offering, emerging with a solid financial foundation that enabled GM to produce great vehicles for their customers and build a bright future for its employees, partners and shareholders (Gm, 2014). In fiscal year 2013 General Motors generated \$155 billion in revenues and it had a net income of \$3.8 billion. The net margin of GM in 2013 was 2.45%.

Question #4

When a company employs directly 1.9 million people it is always worth saving such an organization. The economic effect of employing so many people is tremendous. The Big Three automakers which includes General Motors are a part of American history. The auto industry got started in the United States, thus saving such a national landmark was very important for the United States government. General Motors also generates millions of dollars in tax revenues for the government. The giant investment that the United States made on GM and the other U. S. automakers helped create 340,000 jobs since 2009 (Amadeo, 2014).

References

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