

# Free essay on managerial finance questions

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### **Question 1: Are U. S. stock markets efficient? Explain and provide examples**

Stock trading is paramount to the progress of individual investors as well as company's market capitalization. However, despite high expectations from the company, the shareholders and the government (in the form of taxes), there are infinite challenges in that the stocks market. For example, stocks market worldwide have over time been marred with insider trading, in addition to, share manipulation among other irregularities (Rowley & Smith, 2009). Therefore, this does show that market efficiency is a misconception. Take for example, the Dow Jones Industrial Average reached its peak in October 9, 2007 reaching 14, 200 only to crumble down to 9, 600 by November 4, 2008 and hit its bottom on March 6, 2009 at 6, 500. The situation later changed with a rise to 8, 750 as of mid-June 2009. The market has since then kept on fluctuating depending on some controllable and other malicious activities within the stock market. This has seen colossal demonstration one of which has stood the test of time dubbed Occupy Wall Street Movement.

### **Question 2: Are you a proponent of technical analysis? If so, explain why or why not**

It is apparent that individuals and corporate investors have a higher propensity to incline towards good tidings. However, despite the good news flashing over all the headlines, it is imperative to have another opinion from the technical point of view since technical analysis goes beyond recent activities, but rather indulges in comparison with past similar events and the responses taken. To some skeptics, technical analysis is useless terming

global stock market comparisons as farfetched worthless ideologies that might be raising unnecessary alarms.

A large number of investors are continuously accepting the fact that no longer are market prices reliant on demand and supply, but rather on technical movements within the market niche hence the need for technical analysis (Irwin & Good, 2007).

Question 3: Tech firms often withhold dividend payments. Why? In addition, Apple recently paid a one-time special dividend, yet they have significant sums of cash. Explain their logic for not paying regular dividends. Will this strategy end soon?

When investors make investments in various firms, at the end of the financial year, they do expect some dividend from the shares that they own in the company. However, in most tech firms, the contrary is applicable, choosing to withhold dividends and reinvest it back to individuals' share base, oh without even consulting with shareholders prior to making that decision. Apparently, reinvested dividends tend to accentuate the largest component in as far as total stock market return is concerned.

Recently Apple made dividend payments to its shareholders an aspect that has drawn mixed reactions, while remaining with an enormous cash reserve that it can use for international acquisitions. A principal reason why tech firms are not paying a dividend is the fact that they rely heavily on continuous research and design of novel products and services; thus a need for enormous cash reserves to cater for that need. In the past decade, the wave of technological evolution has hit the market, and firms forced to define their market niche holding fast with innovative product launches. By

withholding dividends and reinvesting it back to the company, it becomes possible to both reduce a company's need for unnecessary loans while remaining on course in their projects. This habit seems to have a future since individual and corporate investors can rely on having more shares in a giant company; thus potentially high returns especially when the company decides to buy back some shares.

Question 4: Research a firm that has recently bought back its own shares and explain the reasoning behind this purchase. Provide your own comments as to whether this will help/hurt the firm's future stock price.

Nokia, a company that has in recent times gone through tough times, has shown market resilience in the past. In recent times, Nokia has during annual shareholders' meeting announced its intentions to repossess some of the shares held by shareholders, with shareholders' permission. Various companies have adopted this approach, which finds itself with enormous cash reserves and intends to improve their shareholders' confidence. Once Nokia bought its shares back, these shares are henceforth nullified and raises in equitable proportion, the value of the remaining shares. Such interests gained from buy backs are channeled back to shareholders in the form of dividends in this typical phenomenon.

Question 5: Explain the practical uses of Just-in-time inventory management, including the advantages and disadvantages. Also, provide an example of a firm that utilizes JIT, and has it been successful?

As the name suggests, instead of receiving inventory days or weeks prior to the demanded date, JIT is used for instant receiving of inventories. In so doing, JIT enables companies to keep track of what is happening within the

organization at all times powered by recent technological innovations. Take for example, JIT in Dell enables faster reordering of commodities upon falling to a certain level; hence enable the company to have necessary stock at all times. In Dell's JIT, the company never possesses raw materials until the customer places an order, that's when materials are ordered immediately (Sadler, 2012).

This approach can be beneficial in that there is the elimination of excessive or a shortage of inventory, which may be a waste. JIT minimizes inventory expenditures and maximizes profitability; thus eliminating the need of traditional inventory methodologies. Another advantage of JIT is that it decreases work-in-progress inventory, edifying efficiency within the workstations especially on the manufacturing floor. This far, Dell has been successful in its utilization of the JIT. However, there are shortcomings especially in line with supplier relationship. If a company does not have a strong rapport with suppliers, implementation of the strategy may prove impractical. Additionally, supplier of small yet frequent deliveries may prove expensive if proper mechanisms and checkpoints are not in place.

Question 6: If you were the CFO of a growing technology firm that was large enough to be listed on a major stock exchange, how would you raise capital to fund your next product?

Raising capital can be a daunting task. To a great extent, raising personal capital from savings may take a prolonged time for the money to be enough. Consequently, raising capital from venture capital, although seen as a risky aspect since there is loss of control by individual owners, may pull a substantially large number of investors towards the venture especially if the

prospects are promising. On the other hand, seeking market capitalization from loans may be appropriate although, in the event that there is forfeiture of payment, it would turn out ugly for the company and its assets with lawsuits at the doorstep.

However, launching an IPO (initial public offer) would raise a substantial amount of money without necessarily making shareholders nagging since they own a substantial number of shares, but in smaller chunks each. Based on the fact that the tech firm is yet to register on the stock market, the most desirable mode would be to seek venture capital. Given the fact that the tech firm is large, it would, therefore, translate to mean that investors only have an opportunity to share a piece of overall company shares. The investment raised from this would then be combined with the firm's vast revenue base for use in both enlisting at the stock exchange and funding the next product.

### **Question 7: Comment on the role that the U. S. government should play in the current European financial crisis.**

European financial crisis has had exacerbated effects on the recently experienced global financial crisis. To some extent, the US has tried to play a back sit game watching from a distance as the effects aggravated. Some critics posit that America thinks that the European crisis is a regional problem instead of a potential global time bomb. Apparently, this passive approach tends to be hitting America hard given the fact that it is increasingly becoming hard for US to raise finances especially for new projects. America can invest in Europe by contributing to bail out aching economies. Another aspect that US can do is to decrease its debts and pay up to European

countries that have lent them long-term loans. Apparently, the European debt crisis has been exacerbated by increased accumulation of debts. One more thing that US can do is to advocate for the dismantling of the Euro, such that, individual countries retain their original currencies.

Question 8: Reference a recent merger between global stock companies and comment on the results. Was this a positive or a negative for the take-over firm? Provide any additional relevant comments regarding this international merger.

Mergers and acquisitions are meant to position companies in strategic directions. Take for example the NYSE-Germany merger, TSX Toronto-London seems to be a hugely shocking issue at the lips of many analysts. To some extent, it is perceivable that the American economy and financial stance on the world market is threatened. The most astonishing aspect of the merger is the fact that the iconic NYSE (New York Stocks Exchange) name and symbols therein will be removed, and a different name accorded (Bunge, 2011). To many, this takeover is an indication of the weakening of American economy, the very backbone of their perceived power. This misconception had both positive and negative effects. First, the backbone of any stock exchange is in investor confidence; thus sustaining investor confidence is paramount in any venture. To some extent, it was perceived like the Germans were invading American economy especially given the fact that US is used to investing in other countries in FDIs (Foreign Direct Investments). However, having a sustainable investment, on the other hand, increases investor confidence; an aspect the merger was sure of doing. In most cases, whenever there is change, there is always an anticipated

negative ideology; thus knowing how to deal with it, is imperative for the success of the intended change.

## References

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