

# Treasury bills

Finance



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Treasury Bills Treasury Bills Governments all around the world engage in regulations within its economy so that a more balanced, beneficial and worthy financial state is enhanced. Through the central bank, the government may restructure the economic mechanisms so that more advantageous outcomes are achieved. One of the ways in which the government can intervene is through the Treasury bills (T-bills). Treasury Bills are literally ‘ short-term financial legal promissory note’ usually taking 12 weeks that government gives through its ‘ Central Bank’ as a tool to control how money flows in the economy as well as to escalate treasuries in unclosed markets activities. T-Bills are usually sold at a profit but are not charged any additional interest such as in the case of other loans. The profits are calculated by finding the remaining amount after ‘ redemption value’ has been subtracted from the value at which it was purchased (Brigham and Ehrhardt, 2013).

In the financial market, T-bills is considered to be the best selling security compared to others in the money market. In nutshell, they are ways and strategies that a government devises to generate some amounts from its citizens. As discussed, they are short-term and usually mature within a year or less. Investors who buy these securities earn through buying them at cheaper prices than those they sell them at when they mature and this provides for a remarkable profit generation.

To issue these marketable securities, the government usually operate under ‘ bidding system’. This means that to acquire the T-bills, one has to forward their bids requesting for the items of which will be determined through rigorous analysis and considerations. There are two ways in which the bids can be submitted; either through ‘ competitive or non-competitive forms

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(Garbade, 2012). Competitive means that one only stands a chance of allocation if they forward the lowest bid and the bidders are therefore asked to mention precisely the profit they seek to earn at the end. Those who quote low profits are given the T-bills. Non-competitive system is where the bidders just forward their bids and they are given the whole sum of the money they requested once it matures.

This investment is good and bad to a financial company that seeks to generate revenue and sustain itself in the money market industry. One of the reasons they have gained market fame and admiration is because they are relatively not expensive and so many companies can easily acquire them. They range from one thousand to a million US Dollars and are specified in different unit values that are convenient. Consequently, they are regarded to be the very secure and the fact that they are free from taxations in most countries makes them so attractive and worthy. However, they are disadvantageous compared to others because they offer low profit margins which has made most investors to back off from it terming it as 'waste of time' (Garbade, 2012).

#### Conclusion and Recommendations

Looking at the merits and demerits of T-bills, it is obvious that the positives outweigh the bad sides of it and a financial manager needs to consider it. Dealings with the governments are regarded by many investors as a safe way that is protected from fraud or cheats and T-bills is among the safest ways to invest. Before any financial manager engages in this business, it is recommended that an evaluation is done based on the pros and cons of the venture in reference to the available capital such that a well-informed decision is made. This investment will best work for businesses that have <https://assignbuster.com/treasury-bills/>

large capital pools owing to its low profits margins.

#### References

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Garbade, K. D. (2012). Birth of a market: The U. S. Treasury securities market from the Great War to the Great Depression. Cambridge, Mass: MIT Press.