

Short Answer - (4 points each) - show your work for partial credit and complete in a WORD document and upload in Blackboard under the Assignment Tab

- 1) A company has a choice of borrowing money by issuing commercial paper or opening a line of credit. You are to evaluate the effective annual rate of each option and choose which one the company should use.
 - a) A company issues \$50,000,000 of commercial paper with a 60-day maturity at a discount rate of 1.5%. The paper is sold through a dealer for an annual charge of .10%. There is also a backup line of credit that costs .25%. What is the effective annual cost of issuing the commercial paper?
 - b) A firm has an average loan outstanding of \$50,000,000 on a \$75,000,000 line of credit. There is a commitment fee of 0.25% on the unused portion of the line, the interest rate on the borrowed funds is 1.55%, and there is a 5% compensating balance requirement?

- 2) You have the option of paying by fees or compensating balances for your bank fees. The following information about your account is provided:

Average Ledger Balance	\$1,500,000
Deposit Float	\$150,000
Reserve Requirement	10%
Earnings Credit Rate	1.5%
Services charges for the month	\$1,425
Days in the month	30

How much is the earnings credits for the month? Is it enough to cover the service charges? For what reason would you **not** want to have earnings credits used to pay for your bank fees, but rather just pay outright to the bank and reduce your balances?

- 3) Company XYX pays \$10.00 for a wire and \$.50 for an ACH transaction. They are wondering if it is a good idea to wire the funds or ACH funds received in their Collection Bank Account to their Concentration Bank Account. If the funds are received in the Collection Bank Account on a Tuesday, what is the break-even amount for a wire instead of an ACH? If the funds are received in the Collection Bank Account on a Friday, what is the break-even amount for a wire instead of an ACH?

The firm's annual opportunity cost is 4.0%.

- 4) A treasurer has excess cash for the day and want to choose between the following two investments and the firms marginal tax rate is 21%:
 - Investing in a 30-day Treasury Bill that has a face amount of 100,000 and trades at a 2.5% discount, or
 - Investing in a municipal money market instrument that has a Bond Equivalent Yield of 2.20%

Which investment has the highest after-tax bond equivalent yield?

- 5) What is the duration of a 3-year \$1,000 face bond that pays a 5% coupon; and the current YTM is 4%? What happens to the value of the bond if rates move up to 5%? What is the new price of the bond at 5% YTM? What has happened to the bond's duration with the increase to 5% YTM?

Face	1000
Years	3
Coupon	5%

Answer only one of the following for 10 points. You can only receive a max of 10 points, for the first one that you answer. Complete your answer in WORD and upload in Blackboard under the Assignment Tab

1. What are the primary considerations in short-term investment management? Discuss what the policy should include regarding safety, liquidity, and yield; the basic risks, and some of the factors that would influence pricing. You should also discuss the types of financial instruments that one would include in a short-term (money market) investment portfolio.
2. A company is having problems managing its Cash Conversion Cycle and would like to use trade financing techniques to reduce their DSO and increase their DPOs. Diagram out how A/R Financing and Supplier Financing can be used to assist in managing the CCC; and provide numbers that would show the rationale on why the trade financing works and the benefits.