

Chapter 5 Business Analysis (5 pts. Due at the end of Module 4)

Harry, a friend of yours, is taking a course in economics, and has become confused by some of the terminology because of the way people commonly use the same words. The economics professor says investment occurs when companies buy equipment and build factories. Yet Harry has always heard people talk about investing as a method of saving when they put money in the bank or purchase securities. He's confused by these dissimilar uses of the word, and has asked you to explain. After asking for your help, Harry happily states that there's one thing he does understand perfectly about what the econ prof says, and that is "savings equals investment." Since investing in stocks and bonds is also saving money, it's obvious that savings equals investment!

QUESTIONS

STUDENT NAME:

NOTE: TYPE YOUR RESPONSES IN THIS DOCUMENT. THE DOCUMENT WILL EXPAND AS YOU ENTER YOUR RESPONSES SUBMIT THE COMPLETED DOCUMENT TO THE DROPBOX BY THE END OF MODULE #2.

When companies have savings they do so to buy what? What can they do or build with these savings they can invest?

The company can invest the savings that will enable them to boost their business, and they will opt-in improving company infrastructure and equipment and improving on customer services. An investment made from savings will help build a better workforce through training and providing for education in relevant skills; the company can use the savings to hire expertise to their organization to increase the technical level of skills and the knowledge required in operating the firm. Career coaches are hired by the company with the savings they will provide information on effective business strategies and handling employee conflicts. Savings are used to create cash buffers that absorb the risk that may emerge during business transactions.

<p>Why do individuals buy financial assets? What are they trying to earn? How will the investment now make them better off in the future?</p>	<p>People invest in financial assets such as stocks and bonds to help them acquire cash at a future time. Many of the financial assets provide security to the buyer on his finances that he will utilize in the coming period. A company will invest the savings in marketing their products to gain large market share.</p>
<p>With business investment, how is money raised through the sale of securities?</p>	<p>A company raises funds from the sale of its shares through issuing of corporate bonds. The bonds are sold to investors that will have a specified life span to mature. Before the bonds have matured, the company is obliged to issue interest payments on the bond to the people invested in them. From the bonds issued, the company can raise money that will be used to finance other projects. The company also sells shares which are categorized into common shares and preferred shares. While raising equity capital, the company does not pay shareholder investment; dividends paid after the sale of shares are the return on investment.</p>
<p>How do the nationwide savings (of individuals) equals investment (of businesses)?</p>	<p>For the national savings to be equal to the business investment, this is only possible when the national income, when equated, will depict</p>

	equality to the national product identity (Corbet, et al 2018).
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