

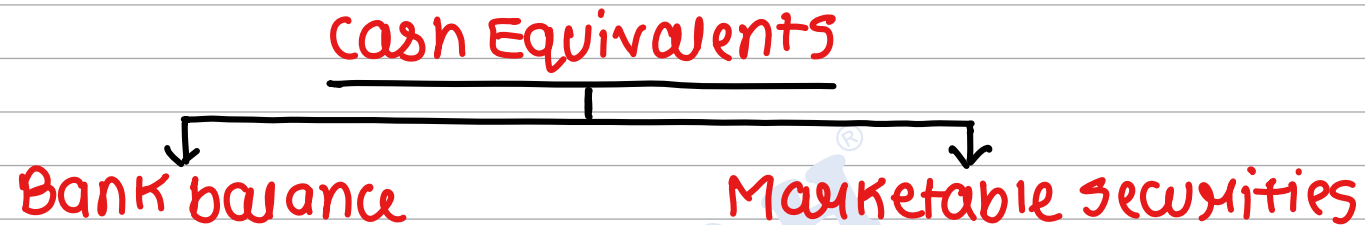
CHAPTER NO. 5 : CASH MANAGEMENT

Points to be discussed

- Introduction
- Motives of holding cash
- William J. Baumol Model

→ Introduction

Cash includes Cash Equivalents also.



→ Motives of Holding cash



→ William J Baumol Model

ANSWERS the question how much cash balance should be maintained
i.e. OPTIMUM CASH BALANCE also called as ECONOMIC LOT SIZE.

Formula. $OCB / ELS = \sqrt{\frac{2 \times A \times T}{i}}$ where

OCB = optimum cash balance

ELS = Economic lot size

A = Annual cash requirement

T = Transaction cost per conversion

i = interest cost per rupee per annum

According to this Model, at optimum cash balance level, the
Total transaction cost and total carrying cost will be the SAME
and also the Total cost will be the LEAST

