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HW Assignment #1
Financial Management

FIN500

FINANCIAL MANAGEMENT

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[Q] How managers and CEO's should prepare themselves and their institutions to face the current financial crises?

The value of any currency today is worth more than its value few months ago. Fine prices of yesterday are no longer fine nowadays. Therefore, strongly, anything related to payments of items valued of months' ago price should be eliminated according to its elasticity.

Conferences, employees' overseas courses, bonuses, high salaries, over employment, advertisements and overtime are not that important when it comes to such crises, which means they are elastic. Extremely ignoring elastic expenses is needed to gain liquidity as much as possible. This liquidity is helpful surviving factor to face the current financial crises.

Elasticity in such situations is the percentage of how an item is affecting the institution functioning. If an item presence affects us 100% then it is inelastic so we have to buy it under the best result of negotiation of its value and vice versa.

The same method should go for all other activities within the institution's departments where the aim is gaining and save more liquid money. That all was about expenses, what about revenues?

Since all unneeded expenses were eliminated where advertisements and all other overvalued long-term marketing activities are some of them, revenue is going to be stable, not high, and not low since expenses reduced.

When dealing with such situation we have gotten to put in mind that we're dealing with a short-run decision making that helps institutions to survive and pass these crises with the least losses. Unneeded expenses have to be eliminated as long as they affect the institution in the short-run even if their ignorance badly affects the institution in the long-run. E.g.: Termination of unneeded employees gives a bad impression about the institution and its stability in the long-run; however, it makes it survive by reducing its expenses to pass this crises period.

Eliminated overvalued expenses and work for more liquidity is what CEO's should do in order to prepare themselves and their institutions to face the current financial crises.

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