

DATE: / /

Section - 4

[Question No. 1]

Q Explain the William J. Baumol's Model?

Ans William J Baumol's Model developed a model (The Transactions Demand for Cash: An Inventory Theoretic Approach) which is usually used in inventory management but has its application in determining the optimal cash balance also. The opportunity cost of holding cash is known and remains constant.

• He developed a model that is (The Transactions Demand

for Cash. An Inventory Theoretic Approach]

- Which is usually used in Inventory management.
- He found similarities between Inventory management and Cash management.
- AS Economic Order Quantity (EOQ) in Inventory management involves trade off b/w carrying costs and ordering costs.
- The optimal cash balance is reached at a point where the total cost is the minimum.