

What do you understand by capital Budgeting

Capital budgeting is the process a business undertakes to evaluate potential major projects or investments. Construction of a new plant or a big investment in an outside venture are examples of projects that would require capital budgeting before they are approved or rejected.

As part of capital budgeting, a company might assess a prospective project's lifetime cash inflows and outflows to determine whether the potential returns that would be generated meet a sufficient target benchmark. The process is also known as investment appraisal.

Motives for Holding Money

In his publication on The General Theory of Employment, Interest, & Money, Keynes outlined three reasons, or motives, for holding money or cash:

Transaction Motive: to pay for goods or services. It is useful for conducting everyday transactions or purchases.

Precautionary Motive: it's a relatively safe investment. Cash investments rarely lose value (as can stocks or bonds) and are therefore held for safety reasons in a balanced portfolio.

Asset or Speculative Motive: it can provide a return to their holders.

There can be many variations on the reasons mentioned above, but these three reasons are perhaps the best overall explanation as to why cash plays an important role in any investor's portfolio.

At a very practical level, we own cash investments to pay for our daily or monthly expenses. At a more strategic level, it provides an investor with a way to control risk as well as gain a return on their investment.