Assignment - 12

Current ratio of firm increases from 1.5 to 2.5 what would be the response of the company's stock price?

The current ratio is a measure of a measure of a company's liquidity, calculated by dividing current assets by current liabilities. An increase in the current ratio from 1.5 to 2.5 indicates that the company has more current assets relative to its current liabilities. However the impact of this change on the company's stock price depends on several factors & market preceptions.

Positive Interpretations:-

Improved Liquiditory:

A higher current ratio suggests the company is in a stronger pursition to meet its short term obligaticens. Investors may view this as a sign of financial stability which could boost confidence in the company & potentially lead to a rise in its stock price.

Reduced financial risk:

A ratio of 2.5 is typicaly seen as a safe level of liquidity, meaning the company has a good buffer to handle unforeseen expenses as short term cash flow issues. This may lead to higher investor trust & interest, supporting stock price growth.

Potential Negative Interpretations.

1. Excessive cash or Idle Assets !-

If the increase in current ratio is due to exesive cash or inventories that aren't being productively used it could signal inefficiency Investors might worry that the company is not effectively utilezing its resources to generate returns which could have a neutral or even negative effect on the stock price.

2. Lack of Growth opportunities:.

A very high current ratio could indicate that the company is holding onto too much cash & not investing in growth opportunities like expanding operations, new product or acquisitions.