ASSIGNMENT - 12

Current Ratio of firm increases from 1.5 to 2.5. What would be the response of the company's stock price.

An increase in the current Ratio from 1.5 to 2.5 Indicates that a company's liquidity has improved, meaning it has more current assets relative to its current liabilities. While this can be viewed as a positive sign of the company's ability to cover it short-term obligations its effect on the stock price depends on several factors

Investor perceptions:-

If Investors interpret the increase as a sign of better financial health and liquidity, it may lead to as increases in the stock price.

Capital Allocations:-

If the increases is due to better management of resources or growth in assets, it can be seen positively. However, if is reflects the company holding excessive cash or not investing enough in growth the negatively, potentially causing the stock price of fall.

Industry Bench marker:-

The impact also depends on how the ratio compares with industry averages. If the firm's current ratio aligns with or out perform competitors, it can be favourable for stock price.

Overall market sentiment:-

Borders market conditions and external factors can influence whether an increase in the current ratio positively impacts stock price.

In generally, a current ratio within a reasonable range (typically between 1.0 and 2.0) is preferred. A very high Current Ratio may indicate inefficiencies which could negatively affect stock price.

↑ Rvble
↑ Inventories
prep Exp

$\frac{\uparrow CA}{\uparrow CL} = 2.5 = 1$