Dynamic Cash Management Models with Loans

Abstract:

Cash management deals with the company’s cash holding strategy. With an insufficient cash holding level, a company might expose to the risk of cash deficit, which might cause a great amount of penalty. On the other hand, a high cash-holding level normally means the inefficient use of firm’s resource, which would constrain firm’s future profitability. The ultimate goal of studying cash management problem is to propose a policy to maximise the firm’s profitability while minimising the damage caused by cash deficit. In this seminar, we will present a cash management model in which managers could take loan to cover the cash deficit. We will also present two methods to solve the model (dynamic programming and heuristic) as well as some preliminary results.