Example 4: Working Capital Management.

Determine how to invest excess cash in 1-month, 3-month and 6-month CDs so as to maximize interest income while meeting company cash requirements (plus safety margin).

	Yield	*Term*	*Purchase CDs in months:*
1-mo CDs:	1.0%	1	1, 2, 3, 4, 5 and 6
3-mo CDs:	4.0%	3	1 and 4
6-mo CDs:	9.0%	6	1

	Interest Earned:
Total	**$7,700**

Month:	***Month 1***	***Month 2***	***Month 3***	***Month 4***	***Month 5***	***Month 6***	***End***
Init Cash:	$400,000	$205,000	$216,000	$237,000	$158,400	$109,400	$125,400
Matur CDs:		100,000	100,000	110,000	100,000	100,000	120,000
Interest:		1,000	1,000	1,400	1,000	1,000	2,300
1-mo CDs:	100,000	100,000	100,000	100,000	100,000	100,000	
3-mo CDs:	10,000			10,000			
6-mo CDs:	10,000						
Cash Uses:	75,000	(10,000)	(20,000)	80,000	50,000	(15,000)	60,000
End Cash:	$205,000	$216,000	$237,000	$158,400	$109,400	$125,400	$187,700

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