LIQUIDITY ANALYSIS OF FINANCE COMPANIES
AND
EFFECT OF ECONOMIC INDICATORS :
A LIQUIDITY MANAGEMENT PERSPECTIVE

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ABSTRACT

Finance companies is the second largest deposit taker after commercial banks in our financial system. The finance companies also is the pioneer in the financial industry whereby they established themselves for quite some time since 1960s. Thus, it is appropriate to make a study of the finance companies performance in managing its asset and liability towards maximizing wealth without forgetting social responsibility.

This study is about liquidity management in the finance companies and management of its funds. It is aimed at providing a comprehensive analysis and model of liquidity by using liquidity ratios in facing changes of the economic indicators.

The significant influences (effectiveness) and relationship between the economic indicators and liquidity ratios are the major areas of the study. One major hypothesis have been tested in this study as to identify type of liquidity ratios and economic indicators that are effected by each others. In this case, what type of liquidity ratios are influenced (effected) by the economic indicators and which economic indicators are the major influences.

The major conclusions drawn from this study showed that only three liquidity ratios are effected by the economic indicators and four of the economic indicators influenced the significant liquidity ratios at different level of confident interval.

By using this findings, the finance companies can protect themselves against liquidity risk by maintaining adequate liquidity and/or being able to acquire needed liquidity in according to economic changes. In this case, the finance companies should manage their liquidity positions consistent with their short run financial objectives and the primary objective of constrained wealth maximization.

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