Dynabasae Tool has forecast its total funds requirements for the coming year as shown in the following table.

**Month Amount Month Amount**

January $2,000,000 July $12,000,000

February 2,000,000 August 14,000,000

March 2,000,000 September 9,000,000

April 4,000,000 October 5,000,000

May 6,000,000 November 4,000,000

June 9,000,000 December 3,000,000

a. Divide the firm’s monthly funds requirements into (1) a *permanent* component and (2) a *seasonal* component, and find the monthly average for each of these components.

b. Describe the amount of long-term and short-term financing used to meet the total funds requirement under (1) an *aggressive funding strategy* and (2) a *conservative funding strategy*. Assume that under the aggressive strategy, long-term funds finance permanent needs and short-term funds are used to finance seasonal needs.

c. Assuming that short-term funds cost over 12% annually and that the cost of long-term funds is 17% annually, use the averages found in part **a** to calculate the total cost of each of the strategies described in part **b**.

d. Discuss the profitability – risk tradeoffs associated with the aggressive strategy and those associated with the conservative strategy.