Alexis Morris, an assistant manager at a local department store, gets paid every 2 weeks by direct deposit into her checking account. This account pays no interest and has no minimum balance requirement. Her monthly income is $4,200. Alexis has a “target” cash balance of around $1,200, and whenever it exceeds that amount she transfers the excess into her savings account, which currently pays 2.0% annual interest. Her account savings balance is $15,000, and Alexis estimates she transfers about $500 per month from her checking account into her savings account. Alexis doesn’t waste any time in paying her bills, and her monthly bills average about $2,000. Her monthly cash outlay for food, gas, and other sundry items totals about $850. Reviewing her payment habits indicate that on average she pays her bills 9 days early. At this time, most marketable securities are yielding about 4.75% annual interest.

Show how Alexis can better manage her cash balance:

a. What can Alexis do regarding the handling of her current balances?

b. What do you suggest that she do with her monthly surpluses?

c. What do you suggest Alexis do about the manner in which she pays her bills?

d. Can Alexis grow her earnings by better managing her cash balances?