MGT201
Financial Management

Important mcqs

Lec 1 - Introduction to financial management

1. **Which of the following is not a primary financial objective of a firm?**
A) Maximizing shareholder wealth
B) Maximizing profits
C) Maximizing sales revenue
D) Minimizing costs
Answer: C

2. **Which of the following statements is true about financial management?**
A) It is primarily concerned with making a profit.
B) It involves managing the use of money to maximize profits.
C) It is the same as accounting.
D) It only involves the use of financial data.
Answer: B

3. **What is the primary role of financial managers in a firm?**
A) To make decisions that maximize shareholder wealth
B) To make decisions that maximize profits
C) To make decisions that minimize costs
D) To make decisions that increase sales revenue
Answer: A

4. **Which of the following is not a capital budgeting technique?**
A) Payback period
B) Internal rate of return
C) Net present value
D) Financial statement analysis
Answer: D

5. **What is the goal of financial statement analysis?**
A) To determine the future profitability of a firm
B) To determine the market value of a firm's stock
C) To evaluate the liquidity and solvency of a firm
D) To determine the capital structure of a firm
Answer: C

6. **Which of the following financial ratios measures a firm's ability to meet its short-term obligations?**
A) Debt-to-equity ratio
B) Return on equity
C) Current ratio

D) Gross profit margin
Answer: C

7. **What is the difference between the present value and future value of money?**
A) The present value is the amount of money that will be received in the future, while the future value is the amount of money that is currently available.
B) The present value is the amount of money that is currently available, while the future value is the amount of money that will be received in the future.
C) The present value is the amount of money that will be received in the future, while the future value is the amount of money that will be needed in the future.
D) The present value is the amount of money that is currently available, while the future value is the amount of money that will be needed in the future.
Answer: B

8. **What is the purpose of a cash budget?**
A) To determine the amount of cash that will be needed to start a new business
B) To determine the amount of cash that will be needed to pay taxes
C) To determine the amount of cash that will be available for operating expenses
D) To determine the amount of cash that will be needed to finance capital expenditures
Answer: C

9. **What is the difference between operating cash flow and free cash flow?**
A) Operating cash flow is the cash generated by a firm's operations, while free cash flow is the cash available to pay dividends and finance growth.
B) Operating cash flow is the cash available to pay dividends and finance growth, while free cash flow is the cash generated by a firm's operations.
C) Operating cash flow is the cash generated by a firm's operations, while free cash flow is the cash available to pay off debt.
D) Operating cash flow is the cash available to pay off debt, while free cash flow is the cash generated by a firm's operations.
Answer: A

10. **Which of the following is not a factor that affects a firm's cost of capital?**
A) Interest rates
B) The firm's level of debt
C) The firm's level of profitability
D) The riskiness of the firm's investments
Answer: C

Lec 2 - Objectives of financial management, financial assets and financial markets

1. **What are the primary objectives of financial management?**
   a. Maximizing market share and revenue
   b. Maximizing shareholder wealth and long-term financial viability
   c. Maximizing employee satisfaction and productivity
   d. Minimizing production costs and maximizing profits
   Answer: b

2. **Which of the following is NOT an example of a financial asset?**
   a. Real estate
   b. Stocks
   c. Bonds
   d. Inventory
   Answer: d

3. **Financial markets are platforms where buyers and sellers trade which of the following?**
   a. Financial assets
   b. Physical assets
   c. Services
   d. All of the above
   Answer: a

4. **The ownership of which financial asset represents ownership in a company?**
   a. Stocks
   b. Bonds
   c. Real estate
   d. All of the above
   Answer: a

5. **Which of the following is NOT a characteristic of financial assets?**
   a. They are easily transferable.
   b. They have a high degree of liquidity.
   c. They have a low degree of risk.
   d. They have the potential for high returns.
   Answer: c

6. **Which financial market specializes in the buying and selling of government-issued bonds?**
   a. Stock market
   b. Bond market
   c. Real estate market
   d. Commodities market
   Answer: b

7. **Which of the following is NOT a factor that affects financial asset prices in financial markets?**
   a. Economic conditions
   b. Political instability
   c. Company size
   d. Interest rates
   Answer: c

8. **What is the main goal of a shareholder when investing in financial assets?**
a. To receive a high level of interest payments
b. To receive a guaranteed return on investment
c. To make a profit by selling the asset at a higher price
d. To have a long-term ownership stake in the company
Answer: c

9. **Which financial asset represents a debt owed by a company or government entity?**
a. Stocks
b. Bonds
c. Real estate
d. Commodities
Answer: b

10. **Which of the following is NOT a function of financial markets?**
a. Providing a platform for companies to raise capital
b. Facilitating the buying and selling of financial assets
c. Setting interest rates for loans and mortgages
d. Providing a means for investors to diversify their portfolios
Answer: c

Lec 3 - Analysis of financial statements

1. **Which of the following financial statements reports an organization's revenues and expenses over a specific period?**
   a) Balance sheet
   b) Income statement
   c) Cash flow statement
   d) Retained earnings statement

Answer: b) Income statement

2. **Which financial statement shows an organization's assets, liabilities, and equity at a specific point in time?**
   a) Income statement
   b) Balance sheet
   c) Cash flow statement
   d) Retained earnings statement

Answer: b) Balance sheet

3. **What is the formula for calculating the current ratio?**
   a) Current assets / Total assets
   b) Current assets / Current liabilities
   c) Total liabilities / Total assets
   d) Net income / Total assets

Answer: b) Current assets / Current liabilities

4. **Which financial ratio measures an organization's ability to pay off its short-term debt obligations?**
   a) Debt-to-equity ratio
   b) Return on equity
   c) Quick ratio
   d) Gross profit margin

Answer: c) Quick ratio

5. **Which financial statement shows the cash inflows and outflows of an organization over a specific period?**
   a) Balance sheet
   b) Income statement
   c) Cash flow statement
   d) Retained earnings statement

Answer: c) Cash flow statement

6. **Which financial ratio measures an organization's profitability?**
   a) Debt-to-equity ratio
   b) Return on equity
   c) Quick ratio

d) Gross profit margin

Answer: b) Return on equity

7. **Which financial ratio measures an organization's ability to meet its long-term debt obligations?**
   a) Debt-to-equity ratio
   b) Current ratio
   c) Gross profit margin
   d) Interest coverage ratio

Answer: d) Interest coverage ratio

8. **Which financial ratio measures an organization's efficiency in using its assets to generate revenue?**
   a) Debt-to-equity ratio
   b) Asset turnover ratio
   c) Return on assets
   d) Gross profit margin

Answer: b) Asset turnover ratio

9. **Which financial statement shows changes in an organization's retained earnings over a specific period?**
   a) Balance sheet
   b) Income statement
   c) Cash flow statement
   d) Retained earnings statement

Answer: d) Retained earnings statement

10. **Which financial ratio measures an organization's leverage?**
   a) Debt-to-equity ratio
   b) Return on equity
   c) Quick ratio
   d) Gross profit margin

Answer: a) Debt-to-equity ratio

Lec 4 - Time value of money

1. **Which of the following best describes the time value of money?**
   a) The idea that money has a fixed value over time.
   b) The idea that money loses value over time.
   c) The idea that money received or paid out at different times has different values due to the potential earning power of money over time.
   d) The idea that the value of money remains the same, regardless of the time it is received or paid out.

Answer: c) The idea that money received or paid out at different times has different values due to the potential earning power of money over time.

2. **Which of the following best describes the present value of money?**
   a) The value of money in the future.
   b) The value of money in the past.
   c) The value of money today.
   d) The value of money at any point in time.

Answer: c) The value of money today.

3. **What is the formula for calculating future value?**
   a) FV = PV x (1 + r)n
   b) PV = FV / (1 + r)n
   c) FV = PV x r x n
   d) PV = FV x (1 + r)n

Answer: a) FV = PV x (1 + r)n

4. **Which of the following is an example of an annuity?**
   a) A one-time payment.
   b) A series of equal payments made at regular intervals.
   c) A lump sum payment.
   d) A payment made at irregular intervals.

Answer: b) A series of equal payments made at regular intervals.

5. **What is the time value of money concept used for?**
   a) To calculate the value of money in the future.
   b) To calculate the value of money in the past.
   c) To calculate the value of money today.
   d) To compare the value of money received or paid out at different times.

Answer: d) To compare the value of money received or paid out at different times.

6. **Which of the following best describes the discount rate?**Which of the following best describes the discount rate?.
   b) The rate at which money decreases in value over time.
   c) The rate used to calculate the present value of future cash flows.
   d) The rate used to calculate the future value of present cash flows.

Answer: c) The rate used to calculate the present value of future cash flows.

7. **Which of the following is an example of a time value of money calculation?**
   a) Calculating the cost of goods sold.
   b) Calculating the net profit of a company.
   c) Calculating the present value of a future investment.
   d) Calculating the amount of inventory a company has.

Answer: c) Calculating the present value of a future investment.

8. **What is the formula for calculating present value?**
   a) PV = FV x (1 + r)n
   b) FV = PV x (1 + r)n
   c) PV = FV / (1 + r)n
   d) FV = PV / (1 + r)n

Answer: c) PV = FV / (1 + r)n

9. **Which of the following best describes compounding?**
   a) The process of earning interest on interest.
   b) The process of earning a fixed interest rate.
   c) The process of earning interest at irregular intervals.
   d) The process of earning interest only once.

Answer: a) The process of earning interest on interest.

10. What is the formula for calculating the number of compounding periods?
    a) n = (ln(FV/PV)) / r
    b) n = r / (ln(FV/PV))
    c) n = (ln(PV/FV)) / r
    d) n = r

Lec 5 - Financial forecasting & financial planning

1. **What is financial forecasting?**
   A) Analyzing past financial data
   B) Estimating future financial outcomes based on historical data
   C) Developing a financial plan
   D) Managing financial resources

Answer: B) Estimating future financial outcomes based on historical data

2. **Which of the following is not a common financial forecasting technique?**
   A) Trend analysis
   B) Regression analysis
   C) Ratio analysis
   D) Decision tree analysis

Answer: D) Decision tree analysis

3. **What is financial planning?**
   A) Estimating future financial outcomes
   B) Developing a budget
   C) Developing a plan for achieving financial goals
   D) Analyzing financial statements

Answer: C) Developing a plan for achieving financial goals

4. **What is a financial plan?**
   A) A detailed budget
   B) A long-term forecast of financial outcomes
   C) A plan for achieving financial goals
   D) A list of financial resources

Answer: C) A plan for achieving financial goals

5. **What is the first step in financial planning?**
   A) Setting financial goals
   B) Developing a budget
   C) Analyzing financial statements
   D) Estimating future financial outcomes

Answer: A) Setting financial goals

6. **Which of the following is not a common financial planning tool?**
   A) Budgeting
   B) Cash flow forecasting
   C) Ratio analysis
   D) Break-even analysis

Answer: C) Ratio analysis

7. **What is cash flow forecasting?**
A) Estimating future financial outcomes
B) Developing a plan for managing cash inflows and outflows
C) Analyzing financial statements
D) Developing a budget

Answer: B) Developing a plan for managing cash inflows and outflows

8. **What is break-even analysis?**
A) Determining the point at which total revenues equal total costs
B) Estimating future financial outcomes
C) Developing a budget
D) Analyzing financial statements

Answer: A) Determining the point at which total revenues equal total costs

9. **What is sensitivity analysis?**
A) Analyzing how changes in key variables affect financial outcomes
B) Developing a budget
C) Estimating future financial outcomes
D) Developing a plan for managing cash inflows and outflows

Answer: A) Analyzing how changes in key variables affect financial outcomes

10. **What is financial modeling?**
A) Creating a detailed budget
B) Developing a long-term financial forecast
C) Analyzing financial statements
D) Using mathematical formulas to simulate financial scenarios

Answer: D) Using mathematical formulas to simulate financial scenarios

Lec 6 - Present value and discounting

1. **What is present value?**
   A) The value of future cash flows at a specific point in time
   B) The value of current cash flows at a specific point in time
   C) The value of cash flows that have already occurred
   D) None of the above

Answer: A

2. **What is discounting?**
   A) The process of increasing future cash flows for the time value of money
   B) The process of adjusting future cash flows for the time value of money
   C) The process of reducing future cash flows for the time value of money
   D) None of the above

Answer: B

3. **What is the present value formula?**
   A) PV = FV / (1 + r)
   B) PV = FV * (1 + r)
   C) PV = FV / r
   D) PV = FV * r

Answer: A

4. **What is the discount rate?**
   A) The interest rate used to calculate present value
   B) The interest rate used to calculate future value
   C) The interest rate used to calculate inflation
   D) None of the above

Answer: A

5. **What is the future value formula?**
   A) FV = PV / (1 + r)
   B) FV = PV * (1 + r)
   C) FV = PV / r
   D) FV = PV * r

Answer: B

6. **What is the time value of money?**
   A) The concept that money is worth more in the future than it is today
   B) The concept that money is worth less in the future than it is today
   C) The concept that money is worth the same in the future as it is today
   D) None of the above

Answer: A

7. **What is the relationship between present value and future value?**
A) Present value is always greater than future value
B) Future value is always greater than present value
C) Present value and future value are equal
D) None of the above

Answer: B

8. **What is the purpose of calculating present value?**
A) To calculate the value of future cash flows in today's dollars
B) To calculate the value of current cash flows in future dollars
C) To calculate the value of cash flows that have already occurred
D) None of the above

Answer: A

9. **What is the effect of an increase in the discount rate on present value?**
A) Present value increases
B) Present value decreases
C) Present value remains the same
D) It depends on the specific situation

Answer: B

10. **What is the effect of an increase in the number of time periods on present value?**
A) Present value increases
B) Present value decreases
C) Present value remains the same
D) It depends on the specific situation

Answer: B

Lec 7 - Discounted cash flow analysis, annuities and perpetuities

1. **What is Discounted Cash Flow (DCF) analysis?**
   A) A valuation method to estimate the value of an investment
   B) A method to calculate future cash flows
   C) A method to calculate future profits
   D) A method to calculate future expenses
   Solution: A) A valuation method to estimate the value of an investment

2. **What is the formula for calculating the present value of an annuity?**
   A) PV = FV / (1+r)^n
   B) PV = (1+r)^n / r
   C) PV = PMT * (1-(1+r)^-n) / r
   D) PV = PMT * n
   Solution: C) PV = PMT * (1-(1+r)^-n) / r

3. **What is an annuity?**
   A) A series of equal payments made at regular intervals
   B) A single payment made at the end of a period
   C) A series of unequal payments made at regular intervals
   D) A single payment made at the beginning of a period
   Solution: A) A series of equal payments made at regular intervals

4. **What is the formula for calculating the present value of a perpetuity?**
   A) PV = FV / (1+r)^n
   B) PV = (1+r)^n / r
   C) PV = PMT / r
   D) PV = PMT * n
   Solution: C) PV = PMT / r

5. **What is a perpetuity?**
   A) An infinite series of equal payments
   B) A single payment made at the end of a period
   C) A series of unequal payments made at regular intervals
   D) A single payment made at the beginning of a period
   Solution: A) An infinite series of equal payments

6. **What is the discount rate in DCF analysis?**
   A) The rate of return required to invest money today
   B) The interest rate on a loan
   C) The rate at which inflation is increasing
   D) The rate at which the economy is growing
   Solution: A) The rate of return required to invest money today

7. **What is the formula for calculating the future value of an annuity?**
   A) FV = PMT * n
   B) FV = PMT * (1+r)^n
   C) FV = PMT * (1-(1+r)^-n) / r
   D) FV = PV * (1+r)^n
   Solution: B) FV = PMT * (1+r)^n

8. **What is the formula for calculating the future value of a perpetuity?**
A) FV = PMT * n
B) FV = PMT * (1+r)^n
C) FV = PMT / r
D) FV = PV * (1+r)^n
Solution: C) FV = PMT / r

9. **What is the difference between an annuity and a perpetuity?**
A) An annuity has a finite number of payments, while a perpetuity has an infinite number of payments
B) An annuity has an infinite number of payments, while a perpetuity has a finite number of payments
C) An annuity and a perpetuity are the same thing
D) An annuity and a perpetuity have different payment amounts
Solution: A) An annuity has a finite number of payments, while a perpetuity has an infinite number of payments

10. **What is the main benefit of using DCF analysis?**
A) It takes into account the time value of money
B) It guarantees a high rate of return on an investment
C) It is a quick and easy way to value an investment
D)

Lec 8 - Capital budgeting and capital budgeting techniques

1. **Which of the following is a capital budgeting technique?**
   a) Balance sheet analysis
   b) Income statement analysis
   c) Payback period
   d) Cash flow analysis

Answer: c) Payback period

2. **Which capital budgeting technique considers the time value of money?**
   a) Payback period
   b) Internal rate of return
   c) Accounting rate of return
   d) Profitability index

Answer: b) Internal rate of return

3. **Which of the following is a disadvantage of the payback period method?**
   a) It is easy to calculate
   b) It considers the time value of money
   c) It ignores cash flows beyond the payback period
   d) It is widely used by businesses

Answer: c) It ignores cash flows beyond the payback period

4. **The net present value (NPV) method uses which of the following to evaluate a project?**
   a) Future cash inflows and outflows
   b) Accounting profits
   c) Depreciation expenses
   d) Market share

Answer: a) Future cash inflows and outflows

5. **Which of the following is an advantage of the internal rate of return (IRR) method?**
   a) It considers all cash flows over the project's life
   b) It is easy to calculate
   c) It does not consider the time value of money
   d) It is not affected by changes in interest rates

Answer: a) It considers all cash flows over the project's life

6. **Which of the following is a disadvantage of the profitability index (PI) method?**
   a) It is difficult to understand and calculate
   b) It is affected by changes in interest rates
   c) It ignores cash flows beyond the payback period
   d) It does not consider the time value of money

Answer: d) It does not consider the time value of money

7. **Which capital budgeting technique uses accounting profits to evaluate a project?**
   a) Payback period
   b) Internal rate of return
   c) Accounting rate of return
   d) Net present value

Answer: c) Accounting rate of return

8. **Which of the following is a limitation of the net present value (NPV) method?**
   a) It ignores the time value of money
   b) It does not consider all cash flows over the project's life
   c) It is difficult to understand and calculate
   d) It is not affected by changes in interest rates

Answer: c) It is difficult to understand and calculate

9. **Which of the following is a capital budgeting decision?**
   a) Deciding on the marketing strategy for a new product
   b) Deciding on the salaries for employees
   c) Deciding on the purchase of new equipment
   d) Deciding on the price of a product

Answer: c) Deciding on the purchase of new equipment

10. **Which of the following is not a capital budgeting technique?**
   a) Payback period
   b) Accounting rate of return
   c) Market share analysis
   d) Net present value

Answer: c) Market share analysis

Lec 9 - Net present value & internal rate of return

1. **What is net present value (NPV)?**
   a. The sum of expected cash inflows
   b. The difference between expected cash inflows and outflows
   c. The present value of expected cash inflows minus the present value of expected cash outflows
   d. The future value of expected cash inflows

Answer: c

2. **What is internal rate of return (IRR)?**
   a. The rate at which the present value of expected cash inflows equals the present value of expected cash outflows
   b. The rate at which the future value of expected cash inflows equals the future value of expected cash outflows
   c. The rate at which the expected cash inflows are greater than the expected cash outflows
   d. The rate at which the expected cash outflows are greater than the expected cash inflows

Answer: a

3. **Which of the following is true about NPV?**
   a. A project is acceptable if its NPV is negative
   b. NPV considers the time value of money
   c. NPV is not affected by the discount rate
   d. NPV only considers cash inflows

Answer: b

4. **Which of the following is true about IRR?**
   a. A project is acceptable if its IRR is less than the required rate of return
   b. IRR does not consider the time value of money
   c. IRR is the same as the cost of capital
   d. IRR is a measure of profitability

Answer: d

5. **If the NPV of a project is zero, what does this mean?**
   a. The project is not profitable
   b. The project is only profitable if the discount rate is increased
   c. The project is only profitable if the discount rate is decreased
   d. The project is just breaking even

Answer: d

6. **Which of the following is a disadvantage of using IRR as a capital budgeting technique?**
   a. It is difficult to calculate
   b. It does not consider the time value of money
   c. It can have multiple solutions
   d. It is not affected by the discount rate

Answer: c

7. **Which of the following is a limitation of using NPV as a capital budgeting technique?**
   a. It does not consider the time value of money
   b. It can be difficult to interpret for projects with multiple cash flows
   c. It does not consider the risk associated with the project
   d. It is affected by the discount rate

Answer: b

8. **When evaluating two investment projects using NPV, which project is more desirable?**
   a. The project with a lower NPV
   b. The project with a higher NPV
   c. The project with a zero NPV
   d. It depends on the discount rate

Answer: b

9. **What is the required rate of return?**
   a. The minimum rate of return an investor expects to earn
   b. The maximum rate of return an investor expects to earn
   c. The rate at which the expected cash inflows are equal to the expected cash outflows
   d. The rate at which the future value of expected cash inflows equals the future value of expected cash outflows

Answer: a

10. Which capital budgeting technique is more sensitive to changes in the discount rate?
   a. NPV
   b. IRR
   c. Both NPV and IRR
   d. Neither NPV nor IRR

Answer: b

Lec 10 - . Project cash flows, project timing, comparing projects and modified internal rate of return

1. **What are project cash flows?**
   a. The initial investment required for a project
   b. The inflows and outflows of cash associated with a particular project
   c. The profit earned from a project
   d. The tax benefits associated with a project

Answer: b. The inflows and outflows of cash associated with a particular project

2. **Why is project timing important?**
   a. It determines the amount of initial investment required
   b. It affects the value of cash flows due to the time value of money
   c. It determines the rate of return on the project
   d. It affects the tax benefits associated with the project

Answer: b. It affects the value of cash flows due to the time value of money

3. **How do you compare projects?**
   a. By evaluating their respective cash flows and rates of return
   b. By comparing the initial investment required for each project
   c. By considering the tax benefits associated with each project
   d. By comparing the size of each project

Answer: a. By evaluating their respective cash flows and rates of return

4. **What is the Modified Internal Rate of Return (MIRR)?**
   a. A variant of NPV
   b. A variant of IRR
   c. A measure of the initial investment required for a project
   d. A measure of the tax benefits associated with a project

Answer: b. A variant of IRR

5. **What does MIRR account for that IRR does not?**
   a. The time value of money
   b. The reinvestment of cash flows at a specific rate
   c. The size of the project
   d. The tax benefits associated with the project

Answer: b. The reinvestment of cash flows at a specific rate

6. **What is the formula for calculating net present value (NPV)?**
   a. CF0 + CF1 / (1 + r) + CF2 / (1 + r)2 + ... + CFn / (1 + r)n
   b. (CF1 - CF0) / CF0
   c. CF0 + CF1 + CF2 + ... + CFn
   d. (CF0 - CF1) / CF1

Answer: a. CF0 + CF1 / (1 + r) + CF2 / (1 + r)2 + ... + CFn / (1 + r)n

7. **How does a higher discount rate affect the net present value (NPV)?**
a. Increases NPV
b. Decreases NPV
c. Has no effect on NPV
d. It depends on the project cash flows

Answer: b. Decreases NPV

8. **What is the formula for calculating internal rate of return (IRR)?**
a. CF0 + CF1 / (1 + r) + CF2 / (1 + r)2 + ... + CFn / (1 + r)n = 0
b. (CF1 - CF0) / CF0
c. CF0 + CF1 + CF2 + ... + CFn
d. (CF0 - CF1) / CF1 = 0

Answer: a. CF0 + CF1 / (1 + r) + CF2 / (1 + r)2 + ... + CFn / (1 + r)n = 0

9. **What is the payback period?**
a. The time it takes for a project to generate a positive net present value
b. The time it takes for the initial investment to be recovered
c. The total amount of cash flows generated by a project
d. The rate of return on the project

Answer: b. The time it takes for the initial investment to be recovered

10. Which of the following is not a

Lec 11 - Some special areas of capital budgeting

1. **Which of the following is a special area of capital budgeting?**
   a. Payback period
   b. Strategic investment decisions
   c. Net present value
   d. Internal rate of return

Answer: b. Strategic investment decisions

2. **Real options analysis is an approach used to:**
   a. Determine project cash flows
   b. Evaluate the timing of cash flows
   c. Incorporate uncertainty into capital budgeting decisions
   d. Calculate the profitability index

Answer: c. Incorporate uncertainty into capital budgeting decisions

3. **Green investment decisions refer to investments that:**
   a. Have a positive impact on the environment
   b. Are financially unprofitable
   c. Do not require significant funding
   d. Are unrelated to environmental sustainability

Answer: a. Have a positive impact on the environment

4. **Which of the following is not a special area of capital budgeting?**
   a. Risk analysis
   b. Joint ventures
   c. Profitability index
   d. Divestitures

Answer: c. Profitability index

5. **Mergers and acquisitions are an example of:**
   a. Green investment decisions
   b. Strategic investment decisions
   c. Real options analysis
   d. Risk analysis

Answer: b. Strategic investment decisions

6. **Which approach is used to evaluate the value of management flexibility in making investment decisions?**
   a. Real options analysis
   b. MIRR
   c. Payback period
   d. Profitability index

Answer: a. Real options analysis

7. **Which of the following is a key factor in assessing the risk associated with a capital budgeting project?**
   a. Project timing
   b. Net present value
   c. Inflation rates
   d. Uncertainty

Answer: d. Uncertainty

8. **Divestitures refer to:**
   a. Investments made in green technology
   b. Selling off a portion of the company
   c. Investment decisions made by joint ventures
   d. Investments made to expand the company's product line

Answer: b. Selling off a portion of the company

9. **Joint ventures are a type of:**
   a. Strategic investment decision
   b. Real options analysis
   c. Green investment decision
   d. Risk analysis

Answer: a. Strategic investment decision

10. **Risk analysis involves:**
    a. Determining the value of management flexibility
    b. Evaluating the environmental impact of a project
    c. Analyzing the likelihood and impact of various risks
    d. Calculating the profitability of a project

Answer: c. Analyzing the likelihood and impact of various risks

Lec 12 - Capital budgeting and interpretation of IRR and NPV with limited capital

1. **In capital budgeting decisions with limited capital, which technique is used to determine which projects to pursue?**
   a) Internal rate of return (IRR)
   b) Net present value (NPV)
   c) Capital rationing
   d) Sensitivity analysis
   Answer: c) Capital rationing

2. **Which of the following methods considers the time value of money in capital budgeting decisions?**
   a) Payback period
   b) Accounting rate of return (ARR)
   c) Net present value (NPV)
   d) Profitability index (PI)
   Answer: c) Net present value (NPV)

3. **Which of the following is an advantage of using the internal rate of return (IRR) method?**
   a) It provides a dollar amount for the project's profitability.
   b) It is easy to understand and calculate.
   c) It considers the time value of money.
   d) It does not require a discount rate.
   Answer: c) It considers the time value of money.

4. **Which of the following is a limitation of using the payback period method?**
   a) It does not consider the time value of money.
   b) It is difficult to calculate.
   c) It is based on estimates and assumptions.
   d) It does not provide a clear indication of profitability.
   Answer: a) It does not consider the time value of money.

5. **What is the primary goal of capital budgeting?**
   a) To maximize profits
   b) To minimize costs
   c) To maximize shareholder wealth
   d) To break even
   Answer: c) To maximize shareholder wealth

6. **Which of the following is a disadvantage of using the profitability index (PI) method?**
   a) It does not consider the time value of money.
   b) It can be difficult to interpret.
   c) It does not provide a dollar amount for the project's profitability.
   d) It requires a discount rate.
   Answer: c) It does not provide a dollar amount for the project's profitability.

7. **Which of the following is a limitation of using the net present value (NPV) method?**
   a) It does not consider the time value of money.
   b) It can be difficult to interpret.
   c) It requires a discount rate.
   d) It is based on estimates and assumptions.
   Answer: d) It is based on estimates and assumptions.

8. **When capital is limited, which of the following is a factor to consider in selecting projects?**
   a) Projects with high internal rates of return (IRRs)
   b) Projects with low net present values (NPVs)
   c) The timing of the project's cash flows
   d) Projects with high payback periods
   Answer: c) The timing of the project's cash flows

9. **Which of the following is an advantage of using the modified internal rate of return (MIRR) method?**
   a) It considers the time value of money.
   b) It is easy to calculate.
   c) It provides a clear indication of profitability.
   d) It does not require a discount rate.
   Answer: c) It provides a clear indication of profitability.

10. **Which of the following methods calculates the rate of return that makes the net present value (NPV) of a project equal to zero?**
    a) Payback period
    b) Internal rate of return (IRR)
    c) Profitability index (PI)
    d) Sensitivity analysis
    Answer: b) Internal rate of return (IRR)

Lec 13 - Bonds and classification of bonds

1. **Which of the following is a type of bond that pays no interest but is sold at a discount to its face value?**
   a) Corporate bond
   b) Government bond
   c) Municipal bond
   d) Zero-coupon bond
   Answer: d) Zero-coupon bond

2. **What type of bond can be converted into shares of the issuer's common stock?**
   a) Corporate bond
   b) Government bond
   c) Municipal bond
   d) Convertible bond
   Answer: d) Convertible bond

3. **Which type of bond is issued by state and local governments?**
   a) Corporate bond
   b) Government bond
   c) Municipal bond
   d) Convertible bond
   Answer: c) Municipal bond

4. **Which type of bond has a variable interest rate that is tied to an external benchmark?**
   a) Fixed-rate bond
   b) Floating-rate bond
   c) Zero-coupon bond
   d) Convertible bond
   Answer: b) Floating-rate bond

5. **What type of bond is backed by the issuer's ability to generate sufficient cash flow to make interest and principal payments?**
   a) Secured bond
   b) Unsecured bond
   c) Junk bond
   d) Callable bond
   Answer: b) Unsecured bond

6. **What type of bond is issued by companies with lower credit ratings and carries a higher risk of default?**
   a) Investment-grade bond
   b) Junk bond
   c) Municipal bond
   d) Convertible bond
   Answer: b) Junk bond

7. **Which type of bond can be redeemed by the issuer prior to its maturity date?**
   a) Callable bond
   b) Puttable bond
   c) Zero-coupon bond
   d) Convertible bond

Answer: a) Callable bond

8. **What type of bond pays a fixed interest rate over its lifetime?**
a) Variable-rate bond
b) Floating-rate bond
c) Zero-coupon bond
d) Fixed-rate bond
Answer: d) Fixed-rate bond

9. **Which type of bond is secured by specific assets of the issuer?**
a) Unsecured bond
b) Secured bond
c) Junk bond
d) Convertible bond
Answer: b) Secured bond

10. **What type of bond can be sold back to the issuer at a specified price before its maturity date?**
a) Callable bond
b) Puttable bond
c) Zero-coupon bond
d) Convertible bond
Answer: b) Puttable bond

Lec 14 - Bonds valuation

1. **What is bond valuation?**
   a) The process of determining the future cash flows of a bond
   b) The process of determining the present value of a bond's future cash flows
   c) The process of determining the coupon rate of a bond
   d) The process of determining the maturity date of a bond

Answer: b) The process of determining the present value of a bond's future cash flows

2. **Which of the following factors is NOT considered in bond valuation?**
   a) Coupon rate
   b) Maturity date
   c) Face value
   d) Issuer's credit rating

Answer: d) Issuer's credit rating

3. **When interest rates rise, what happens to the value of a bond?**
   a) It increases
   b) It decreases
   c) It remains the same
   d) It cannot be determined

Answer: b) It decreases

4. **What is the relationship between bond prices and yields?**
   a) They have a positive relationship
   b) They have a negative relationship
   c) They have no relationship
   d) They have an inverse relationship

Answer: d) They have an inverse relationship

5. **What is a bond's yield to maturity (YTM)?**
   a) The interest rate the issuer pays on the bond
   b) The interest rate investors demand for the bond
   c) The annualized return an investor would earn if the bond is held to maturity
   d) The annual coupon payment divided by the face value of the bond

Answer: c) The annualized return an investor would earn if the bond is held to maturity

6. **What is the current yield of a bond?**
   a) The annual coupon payment divided by the face value of the bond
   b) The annualized return an investor would earn if the bond is held to maturity
   c) The yield an investor earns by purchasing a bond at its current market price
   d) The yield an investor earns by purchasing a bond at its face value

Answer: a) The annual coupon payment divided by the face value of the bond

7. **What is a bond's yield to call (YTC)?**
   a) The interest rate the issuer pays on the bond
   b) The interest rate investors demand for the bond
   c) The annualized return an investor would earn if the bond is called before maturity
   d) The annual coupon payment divided by the face value of the bond

Answer: c) The annualized return an investor would earn if the bond is called before maturity

8. **What is a premium bond?**
   a) A bond that is trading above its face value
   b) A bond that is trading at its face value
   c) A bond that is trading below its face value
   d) A bond that has a coupon rate higher than prevailing market interest rates

Answer: a) A bond that is trading above its face value

9. **What is a discount bond?**
   a) A bond that is trading above its face value
   b) A bond that is trading at its face value
   c) A bond that is trading below its face value
   d) A bond that has a coupon rate higher than prevailing market interest rates

Answer: c) A bond that is trading below its face value

10. What is the formula to calculate the present value of a bond's cash flows?
    a) PV = C / r
    b) PV = C / (1+r)^n
    c) PV = C * r
    d) PV = FV * r

Answer: b) PV = C / (1+r)^n

Lec 15 - Bond valuation & yield on bonds

1. **What is the formula for calculating the yield to maturity on a bond?**
   A. (Annual coupon payment + Face value - Bond price) / Face value
   B. (Annual coupon payment / Bond price) x 100
   C. (Annual coupon payment + Face value) / Bond price
   D. (Annual coupon payment x Number of years) / Bond price
   Answer: A

2. **Which of the following bond yields is used to calculate the price of a bond in the secondary market?**
   A. Yield to maturity
   B. Current yield
   C. Coupon rate
   D. Yield to call
   Answer: A

3. **What happens to the price of a bond when its yield to maturity increases?**
   A. The price increases
   B. The price decreases
   C. The price remains the same
   D. The price fluctuates
   Answer: B

4. **What is the relationship between the coupon rate and the yield to maturity on a bond?**
   A. They are equal
   B. The coupon rate is always higher
   C. The yield to maturity is always higher
   D. They may be equal or different depending on market conditions
   Answer: D

5. **What is the formula for calculating the current yield on a bond?**
   A. Annual coupon payment / Bond price
   B. (Annual coupon payment x Number of years) / Bond price
   C. (Annual coupon payment + Face value) / Bond price
   D. (Annual coupon payment + Face value - Bond price) / Face value
   Answer: A

6. **Which of the following factors affects the yield to maturity on a bond?**
   A. Coupon rate
   B. Face value
   C. Bond price
   D. All of the above
   Answer: D

7. **What is the formula for calculating the price of a bond?**
   A. Annual coupon payment x Number of years
   B. Annual coupon payment / Bond price
   C. (Annual coupon payment / Yield to maturity) x (1 - 1 / (1 + Yield to maturity)^Number of years) + Face value / (1 + Yield to maturity)^Number of years
   D. Face value / Bond price
   Answer: C

8. **Which of the following bonds has the highest default risk?**
   A. Treasury bond
   B. Municipal bond
   C. Corporate bond
   D. Zero-coupon bond
   Answer: C

9. **What is the yield to call on a bond?**
   A. The yield to maturity when the bond is called
   B. The yield earned on the bond when it is called
   C. The yield required by investors to hold the bond until it is called
   D. None of the above
   Answer: C

10. **What is the difference between the coupon rate and the yield to maturity on a premium bond?**
    A. The coupon rate is higher than the yield to maturity
    B. The coupon rate is lower than the yield to maturity
    C. The coupon rate is equal to the yield to maturity
    D. It depends on market conditions
    Answer: B

Lec 16 - Introduction to stocks and stock valuation

1. **What are stocks?** a) A type of bond b) A type of derivative c) Securities representing ownership in a company d) None of the above

Solution: c) Securities representing ownership in a company

2. **What is stock valuation?** a) The process of determining the price of a stock b) The process of determining the intrinsic value of a stock c) The process of determining the dividend yield of a stock d) None of the above

Solution: b) The process of determining the intrinsic value of a stock

3. **What are some factors considered in stock valuation?** a) Company's financial performance b) Growth potential c) Industry trends d) All of the above

Solution: d) All of the above

4. **Why is understanding stock valuation important?** a) To make informed investment decisions b) To maximize profits c) To minimize risks d) All of the above

Solution: d) All of the above

5. **What is the difference between a stock and a bond?** a) Stocks represent ownership in a company, while bonds represent debt b) Bonds represent ownership in a company, while stocks represent debt c) Stocks and bonds are the same thing d) None of the above

Solution: a) Stocks represent ownership in a company, while bonds represent debt

6. **What is the stock market?** a) A place where stocks are bought and sold b) A place where bonds are bought and sold c) A place where commodities are bought and sold d) None of the above

Solution: a) A place where stocks are bought and sold

7. **What is the difference between common stock and preferred stock?** a) Common stockholders have voting rights, while preferred stockholders do not b) Preferred stockholders have voting rights, while common stockholders do not c) Common stockholders receive dividends before preferred stockholders d) None of the above

Solution: a) Common stockholders have voting rights, while preferred stockholders do not

8. **What is a dividend?** a) A payment made by a company to its stockholders b) A payment made by a company to its creditors c) A payment made by a company to its employees d) None of the above

Solution: a) A payment made by a company to its stockholders

9. **What is a stock split?** a) When a company issues more shares of stock b) When a company reduces the number of shares of stock c) When a company changes the face value of its stock d) None of the above

Solution: a) When a company issues more shares of stock

10. **What is insider trading?** a) When a company's employees buy or sell the company's stock based on non-public information b) When a company's employees buy or sell the company's stock based on public information c) When a company's employees refuse to buy or sell the company's stock d) None of the above

Solution: a) When a company's employees buy or sell the company's stock based on non-public information

Lec 17 - Common stock pricing and dividend growth model

1. **The common stock pricing and dividend growth model is used to estimate the fair value of a stock based on:**
   a) Its historical dividend payments
   b) Its expected future dividend payments
   c) Its stock price at a given point in time
   d) Its industry average P/E ratio

Answer: b) Its expected future dividend payments

2. **According to the dividend growth model, the value of a stock is equal to:**
   a) Its current stock price
   b) The sum of its historical dividend payments
   c) The sum of its expected future dividend payments
   d) Its book value

Answer: c) The sum of its expected future dividend payments

3. **The discount rate used in the dividend growth model is typically:**
   a) The risk-free rate of return
   b) The company's cost of equity
   c) The industry average P/E ratio
   d) The company's debt-to-equity ratio

Answer: b) The company's cost of equity

4. **If a company's dividend growth rate is expected to be 5% per year and its current annual dividend is $2 per share, what is the expected dividend per share in 5 years?**
   a) $2.63
   b) $2.78
   c) $3.10
   d) $3.24

Answer: c) $3.10

5. **The dividend growth model assumes that the company's dividend growth rate will:**
   a) Increase over time
   b) Remain constant over time
   c) Decrease over time
   d) Fluctuate randomly over time

Answer: b) Remain constant over time

6. **The dividend growth model can be used to estimate the fair value of:**
   a) Growth stocks
   b) Value stocks
   c) Income stocks
   d) All of the above

Answer: c) Income stocks

7. **If a company has a current stock price of $50 and an expected annual dividend of $2 per share, what is the expected dividend yield?**
   a) 2%
   b) 4%
   c) 5%
   d) 10%

Answer: b) 4%

8. **The dividend growth model assumes that investors require a higher return on their investment as:**
   a) The dividend growth rate increases
   b) The dividend growth rate decreases
   c) The discount rate increases
   d) The discount rate decreases

Answer: c) The discount rate increases

9. **If a company's cost of equity is 10% and its expected dividend growth rate is 5%, what is the expected dividend yield?**
   a) 5%
   b) 10%
   c) 15%
   d) 20%

Answer: a) 5%

10. **The dividend growth model assumes that a company's future dividend payments are:**
    a) Guaranteed to occur
    b) Not guaranteed to occur
    c) Guaranteed to increase over time
    d) Not guaranteed to increase over time

Answer: b) Not guaranteed to occur

Lec 18 - Common stock - rate of return & EPS pricing model

1. **What is the common stock - rate of return and EPS pricing model used for?**
   A. To estimate the fair value of a stock
   B. To calculate the company's net income
   C. To measure the company's liquidity
   Answer: A

2. **The EPS in the common stock - rate of return and EPS pricing model stands for:**
   A. Earnings Per Stock
   B. Expected Price Stability
   C. Earnings Per Share
   Answer: C

3. **The required rate of return in the common stock - rate of return and EPS pricing model represents:**
   A. The investor's expected rate of return on the stock
   B. The company's cost of equity
   C. The company's net income
   Answer: A

4. **The fair value of a stock in the common stock - rate of return and EPS pricing model is calculated by:**
   A. Dividing the expected EPS by the required rate of return
   B. Multiplying the expected EPS by the required rate of return
   C. Subtracting the expected EPS from the required rate of return
   Answer: A

5. **The expected growth rate in the common stock - rate of return and EPS pricing model represents:**
   A. The expected rate of increase in the company's net income
   B. The expected rate of increase in the company's stock price
   C. The expected rate of increase in the company's dividends
   Answer: A

6. **The common stock - rate of return and EPS pricing model assumes:**
   A. A constant growth rate in EPS
   B. A variable growth rate in EPS
   C. No growth in EPS
   Answer: A

7. **The EPS used in the common stock - rate of return and EPS pricing model should be:**
   A. The expected EPS for the current year
   B. The average EPS over the last five years
   C. The projected EPS for the next five years
   Answer: C

8. **The required rate of return in the common stock - rate of return and EPS pricing model is influenced by:**
   A. Market conditions
   B. The company's perceived risk
   C. Both A and B

Answer: C

9. **What is the main limitation of the common stock - rate of return and EPS pricing model?**
A. It assumes a constant growth rate in EPS
B. It does not consider the company's debt levels
C. It does not account for market fluctuations
Answer: A

10. **How can the common stock - rate of return and EPS pricing model be used in conjunction with other valuation methods?**
A. To compare and verify the results of other valuation methods
B. To replace other valuation methods altogether
C. To use in isolation as the most reliable valuation method
Answer: A

Lec 19 - Introduction to risk., risk and return for single stock investment

1. **What is risk in the context of single stock investment?**
   A) The profit generated by an investment
   B) The probability of achieving expected return
   C) The extent of fluctuations in the stock's returns
   D) The cost of investing in a stock
   Answer: C

2. **What is the measure of risk associated with a stock?**
   A) Expected return
   B) Standard deviation
   C) Dividend yield
   D) Price to earnings ratio
   Answer: B

3. **What factors can contribute to risk in single stock investment?**
   A) Market volatility
   B) Company-specific risks
   C) External factors like political instability
   D) All of the above
   Answer: D

4. **What is the relationship between risk and return?**
   A) Negative
   B) No relationship
   C) Positive
   D) Inverse
   Answer: C

5. **What is the meaning of return in single stock investment?**
   A) The probability of achieving expected return
   B) The profit generated by an investment
   C) The cost of investing in a stock
   D) The extent of fluctuations in the stock's returns
   Answer: B

6. **What is the primary concern of investors when considering single stock investment?**
   A) Maximizing return
   B) Minimizing risk
   C) Balancing risk and return
   D) Achieving market average return
   Answer: C

7. Which of the following can contribute to company-specific risk in single stock investment?
   A) Changes in leadership
   B) Changes in regulations
   C) Industry-wide trends
   D) All of the above
   Answer: A

8. **What is the typical measure of market risk?**
   A) Standard deviation
   B) Beta
   C) Dividend yield
   D) Price to earnings ratio
   Answer: B

9. **What is the primary way investors manage risk in single stock investment?**
   A) Diversification
   B) Short selling
   C) Margin trading
   D) Stock picking
   Answer: A

10. **Which of the following factors can impact both risk and return in single stock investment?**
    A) Market volatility
    B) Company-specific risks
    C) Economic conditions
    D) All of the above
    Answer: D

Lec 20 - Risk for single a stock investment probability graph and co-efficient of variation

1. **What is the purpose of a probability graph in relation to single stock investment?**
A) To show the trend of the stock price over time
B) To display the likelihood of different returns occurring
C) To predict the future price of the stock
D) To compare the stock to other investments

Answer: B) To display the likelihood of different returns occurring

2. **What does a normal distribution curve represent in a probability graph?**
A) The actual return of the stock
B) The expected return of the stock
C) The likelihood of different returns occurring
D) The trend of the stock price over time

Answer: C) The likelihood of different returns occurring

3. **What is the coefficient of variation (CV) used for in single stock investment?**
A) To predict the future price of the stock
B) To measure the standard deviation of the stock's returns
C) To compare the risk of different investments with different expected returns
D) To measure the average return of the stock

Answer: C) To compare the risk of different investments with different expected returns

4. **A higher coefficient of variation (CV) indicates:**
A) A greater degree of risk
B) A lower degree of risk
C) A higher average return
D) A lower average return

Answer: A) A greater degree of risk

5. **What does the coefficient of variation (CV) compare in single stock investment?**
A) The standard deviation of the stock's returns to its mean return
B) The stock's current price to its historical price
C) The stock's expected return to the market's expected return
D) The stock's dividend yield to its market value

Answer: A) The standard deviation of the stock's returns to its mean return

6. **Which of the following is a factor that can contribute to risk in single stock investment?**
A) Market stability
B) Company-specific risks
C) Low volatility
D) Political stability

Answer: B) Company-specific risks

7. **What is the relationship between risk and return in single stock investment?**
   A) Positive
   B) Negative
   C) Neutral
   D) It depends on the stock

Answer: A) Positive

8. **Which of the following strategies can be used to manage risk in single stock investment?**
   A) Diversification
   B) Setting stop-loss orders
   C) Utilizing hedging techniques
   D) All of the above

Answer: D) All of the above

9. **Which statistical measure of risk allows investors to compare the risk of different investments with different expected returns?**
   A) Standard deviation
   B) Coefficient of variation
   C) Sharpe ratio
   D) Beta coefficient

Answer: B) Coefficient of variation

10. **What is the purpose of risk management in single stock investment?**
   A) To eliminate all risk from the investment
   B) To balance risk and return
   C) To guarantee a certain level of return
   D) To increase the risk of the investment

Answer: B) To balance risk and return

Lec 21 - Two stock portfolio theory, risk and expected return

1. **What is the main concept of the two-stock portfolio theory?**
   A) Investing in two different stocks as a means of reducing investment risk.
   B) Investing in two highly correlated stocks to increase portfolio risk.
   C) Investing in a single stock to maximize portfolio risk.
   Answer: A

2. **How can investors reduce portfolio risk through the two-stock portfolio theory?**
   A) By investing in two highly correlated stocks.
   B) By investing in a single stock.
   C) By investing in two stocks that are not highly correlated.
   Answer: C

3. **What is the expected return of a two-stock portfolio?**
   A) It is the sum of the expected returns of each stock in the portfolio.
   B) It is the average of the expected returns of each stock in the portfolio.
   C) It is the weighted average of the expected returns of each stock in the portfolio.
   Answer: C

4. **How does the correlation between two stocks in a portfolio affect the overall risk of the portfolio?**
   A) Higher correlation leads to higher portfolio risk.
   B) Lower correlation leads to higher portfolio risk.
   C) Correlation has no impact on portfolio risk.
   Answer: B

5. **What is diversification in the context of a two-stock portfolio?**
   A) Spreading investments across multiple asset classes.
   B) Spreading investments across multiple stocks.
   C) Investing in a single stock.
   Answer: B

6. **Which of the following is a potential benefit of the two-stock portfolio theory?**
   A) Increased portfolio risk.
   B) Decreased portfolio risk.
   C) Increased portfolio returns.
   Answer: B

7. How is portfolio risk calculated in the context of a two-stock portfolio?
   A) It is the sum of the risks of each stock in the portfolio.
   B) It is the average of the risks of each stock in the portfolio.
   C) It is a function of the correlation between the two stocks.
   Answer: C

8. **What is the expected return of a stock?**
   A) It is the return an investor can expect to receive on the stock.
   B) It is the price at which the stock is expected to be sold.
   C) It is the price at which the stock was purchased.
   Answer: A

9. **Which of the following factors is NOT considered when calculating the expected return of a two-stock portfolio?**
   A) The expected return of each individual stock in the portfolio.
   B) The correlation between the two stocks in the portfolio.
   C) The total amount invested in the portfolio.
   Answer: C

10. **Which of the following is an example of diversification in a two-stock portfolio?**
    A) Investing in two highly correlated stocks.
    B) Investing in a single stock.
    C) Investing in two stocks that are not highly correlated.
    Answer: C

Lec 22 - Portfolio risk analysis and efficient portfolio maps

1. **What is the efficient portfolio frontier?**
   a) The set of portfolios that offer the highest expected return for a given level of risk
   b) The set of portfolios that offer the lowest expected return for a given level of risk
   c) The set of portfolios that offer the highest risk for a given level of return
   d) The set of portfolios that offer the lowest risk for a given level of return

Answer: a) The set of portfolios that offer the highest expected return for a given level of risk

2. **What is the purpose of an efficient portfolio map?**
   a) To show the expected return and risk of various portfolios
   b) To show the expected return of various portfolios
   c) To show the risk of various portfolios
   d) None of the above

Answer: a) To show the expected return and risk of various portfolios

3. **What is the trade-off between risk and return?**
   a) Higher risk generally leads to higher return, and lower risk generally leads to lower return
   b) Higher risk generally leads to lower return, and lower risk generally leads to higher return
   c) Risk and return are unrelated
   d) None of the above

Answer: b) Higher risk generally leads to lower return, and lower risk generally leads to higher return

4. **Which of the following tools is used for portfolio risk analysis?**
   a) Efficient portfolio frontier
   b) Efficient portfolio map
   c) Both a and b
   d) None of the above

Answer: c) Both a and b

5. **What does the efficient portfolio frontier show?**
   a) The set of portfolios that offer the highest expected return for a given level of risk
   b) The set of portfolios that offer the lowest expected return for a given level of risk
   c) The set of portfolios that offer the highest risk for a given level of return
   d) The set of portfolios that offer the lowest risk for a given level of return

Answer: a) The set of portfolios that offer the highest expected return for a given level of risk

6. **What is the optimal portfolio?**
   a) The portfolio with the highest expected return
   b) The portfolio with the lowest risk
   c) The portfolio that meets the investor's specific investment objectives
   d) None of the above

Answer: c) The portfolio that meets the investor's specific investment objectives

7. **What is the co-variance between two assets in a portfolio?**
a) A measure of how much the returns of the two assets move together
b) A measure of how much the returns of the two assets move in opposite directions
c) A measure of how much the returns of the two assets are unrelated
d) None of the above

Answer: a) A measure of how much the returns of the two assets move together

8. **What is the correlation coefficient between two assets in a portfolio?**
a) A measure of how much the returns of the two assets move together
b) A measure of how much the returns of the two assets move in opposite directions
c) A measure of how much the returns of the two assets are unrelated
d) None of the above

Answer: a) A measure of how much the returns of the two assets move together

9. **What is the risk of a portfolio with perfectly correlated assets?**
a) Lower than the risk of a portfolio with uncorrelated assets
b) Higher than the risk of a portfolio with uncorrelated assets
c) Equal to the risk of a portfolio with uncorrelated assets
d) None of the above

Answer: b) Higher than the risk of a portfolio with uncorrelated assets

10. **What is the benefit of diversification in a portfolio?**
a) Lowering the risk of the portfolio
b) Increasing the expected return of the

Lec 23 - Efficient portfolios, market risk, & CML

1. **What is an efficient portfolio?**
   a) A portfolio that provides maximum return with minimum risk
   b) A portfolio that provides minimum return with maximum risk
   c) A portfolio that provides average return with average risk
   d) A portfolio that provides high return with high risk
   Answer: a) A portfolio that provides maximum return with minimum risk

2. **What is market risk?**
   a) Risk associated with a specific stock
   b) Risk associated with a specific industry
   c) Risk associated with the overall market
   d) None of the above
   Answer: c) Risk associated with the overall market

3. **What is the Capital Market Line (CML)?**
   a) A line that represents the expected return of inefficient portfolios
   b) A line that represents the expected return of efficient portfolios
   c) A line that represents the expected return of high-risk portfolios
   d) A line that represents the expected return of low-risk portfolios
   Answer: b) A line that represents the expected return of efficient portfolios

4. **What is the formula for calculating the expected return of a portfolio?**
   a) Expected return = (Portfolio weight x Individual stock return) + Risk-free rate
   b) Expected return = (Portfolio weight x Individual stock return) - Risk-free rate
   c) Expected return = (Portfolio weight x Individual stock return) x Risk-free rate
   d) None of the above
   Answer: a) Expected return = (Portfolio weight x Individual stock return) + Risk-free rate

5. **Which of the following is true for an efficient portfolio?**
   a) It lies below the CML
   b) It lies above the CML
   c) It lies on the CML
   d) It lies on the security market line (SML)
   Answer: c) It lies on the CML

6. **What is the slope of the CML?**
   a) Risk-free rate
   b) Market risk premium
   c) Beta
   d) Standard deviation
   Answer: b) Market risk premium

7. **What is the relationship between risk and return in an efficient portfolio?**
   a) Direct
   b) Inverse
   c) No relationship
   d) None of the above
   Answer: a) Direct

8. **What is the formula for calculating the expected return of the market portfolio?**
   a) Expected return = Risk-free rate + Beta x (Market return - Risk-free rate)
   b) Expected return = Beta x (Market return - Risk-free rate)
   c) Expected return = Market return - Risk-free rate
   d) None of the above
   Answer: a) Expected return = Risk-free rate + Beta x (Market return - Risk-free rate)

9. **What is the difference between systematic risk and unsystematic risk?**
   a) Systematic risk is the risk that can be diversified away while unsystematic risk cannot be diversified away
   b) Unsystematic risk is the risk that can be diversified away while systematic risk cannot be diversified away
   c) Both systematic and unsystematic risks can be diversified away
   d) None of the above
   Answer: b) Unsystematic risk is the risk that can be diversified away while systematic risk cannot be diversified away

10. **What is the Sharpe ratio?**
   a) A measure of risk-adjusted return
   b) A measure of market risk
   c) A measure of unsystematic risk
   d) A measure of systematic risk
   Answer: a) A measure of risk-adjusted return

Lec 24 - . Stock beta, portfolio beta and introduction to security market line (SML)

1. **What is stock beta?**
   a) A measure of a stock's volatility compared to other stocks
   b) A measure of a stock's volatility compared to the overall market
   c) A measure of a stock's dividend yield
   d) A measure of a stock's price-to-earnings ratio

Answer: b) A measure of a stock's volatility compared to the overall market

2. **What is portfolio beta?**
   a) The return on investment of a portfolio
   b) The standard deviation of a portfolio
   c) A weighted average of individual stock betas within a portfolio
   d) A measure of a portfolio's dividend yield

Answer: c) A weighted average of individual stock betas within a portfolio

3. **What is the Security Market Line (SML)?**
   a) A line representing the relationship between the risk and return of a security
   b) A line representing the relationship between the price and earnings of a security
   c) A line representing the relationship between the dividend yield and price of a security
   d) A line representing the relationship between the market cap and volume of a security

Answer: a) A line representing the relationship between the risk and return of a security

4. **What does a stock lying above the SML indicate?**
   a) It is undervalued
   b) It is overvalued
   c) It is fairly valued
   d) None of the above

Answer: a) It is undervalued

5. **What does a stock lying below the SML indicate?**
   a) It is undervalued
   b) It is overvalued
   c) It is fairly valued
   d) None of the above

Answer: b) It is overvalued

6. **If a stock has a beta of 1.5, what does it mean?**
   a) The stock is less volatile than the market
   b) The stock is more volatile than the market
   c) The stock has the same volatility as the market
   d) The stock has no volatility

Answer: b) The stock is more volatile than the market

7. **If a portfolio has a beta of 0.8, what does it mean?**
a) The portfolio is less risky than the market
b) The portfolio is more risky than the market
c) The portfolio has the same risk as the market
d) The portfolio has no risk

Answer: a) The portfolio is less risky than the market

8. **What is the formula for calculating portfolio beta?**
a) The sum of individual stock betas in the portfolio
b) The weighted average of individual stock betas in the portfolio
c) The product of individual stock betas in the portfolio
d) The difference between individual stock betas in the portfolio

Answer: b) The weighted average of individual stock betas in the portfolio

9. **What is the slope of the Security Market Line (SML)?**
a) Beta
b) Alpha
c) R-squared
d) Standard deviation

Answer: a) Beta

10. **What is the intercept of the Security Market Line (SML)?**
a) Risk-free rate
b) Expected return
c) Market risk premium
d) Dividend yield

Answer: a) Risk-free rate

Lec 25 - Stock betas & risk, SML and return and stock prices in efficient markets

1. **Which of the following is not true regarding beta?**
A. Beta measures the sensitivity of a stock's return to changes in the market.
B. A beta of 1 indicates that the stock's return is perfectly correlated with the market return.
C. A beta of 0 indicates that the stock's return is uncorrelated with the market return.
D. A beta of less than 1 indicates that the stock is less volatile than the market.
Answer: D

2. **The Security Market Line (SML) is a graphical representation of:**
A. the relationship between expected returns and beta for individual securities.
B. the relationship between risk and return for individual securities.
C. the relationship between the market risk premium and the risk-free rate.
D. the relationship between the risk-free rate and beta for individual securities.
Answer: A

3. **In an efficient market, which of the following statements is true?**
A. All stocks have the same expected return.
B. All stocks have the same risk.
C. All stocks have the same price.
D. None of the above.
Answer: D

4. **Which of the following statements is true regarding the Capital Asset Pricing Model (CAPM)?**
A. It is used to estimate the expected return of a security.
B. It assumes that investors are risk averse.
C. It assumes that the market is inefficient.
D. It assumes that all investors have the same expectations and information.
Answer: A

5. **If the risk-free rate increases, what happens to the Security Market Line (SML)?**
A. It shifts upward.
B. It shifts downward.
C. It remains unchanged.
D. It becomes steeper.
Answer: A

6. **Which of the following factors can affect a stock's beta?**
A. The stock's industry.
B. The stock's size.
C. The stock's financial leverage.
D. All of the above.
Answer: D

7. **Which of the following statements is true regarding the relationship between beta and required return?**
A. The higher the beta, the lower the required return.
B. The higher the beta, the higher the required return.
C. Beta has no effect on required return.
D. There is an inverse relationship between beta and required return.
Answer: B

8. **Which of the following is not a limitation of the CAPM?**
A. It assumes that investors are rational.
B. It assumes that all investors have the same expectations and information.
C. It assumes that markets are always efficient.
D. It does not take into account other factors that can affect a stock's return.
Answer: C

9. **Which of the following is true regarding efficient portfolios?**
A. They are portfolios that have the highest possible return for a given level of risk.
B. They are portfolios that have the lowest possible risk for a given level of return.
C. They are portfolios that have the highest possible return and the lowest possible risk.
D. They are portfolios that have an expected return of zero.
Answer: A

10. **Which of the following statements is true regarding the relationship between risk and return in efficient markets?**
A. There is a direct relationship between risk and return.
B. There is an inverse relationship between risk and return.
C. There is no relationship between risk and return.
D. The relationship between risk and return is different for each individual security.
Answer: A

Lec 26 - SML graph & CAPM

1. **What does the SML graph represent?**
A) The relationship between risk and return
B) The relationship between stock prices and return
C) The relationship between supply and demand
D) The relationship between dividend yield and stock price
Answer: A

2. **What is the equation for the SML?**
A) Rf + ?(Rm - Rf)
B) Rf - ?(Rm - Rf)
C) Rf - ?(Rm + Rf)
D) Rf + ?(Rm + Rf)
Answer: A

3. **According to CAPM, what is the expected return on a stock?**
A) Risk-free rate + Market risk premium
B) Risk-free rate - Market risk premium
C) Beta + Market risk premium
D) Beta - Risk-free rate
Answer: A

4. **In the context of CAPM, what does beta represent?**
A) The risk-free rate
B) The market risk premium
C) The stock's volatility relative to the market
D) The expected return on the market
Answer: C

5. **According to CAPM, what is the expected return on a stock with a beta of 1.5 if the risk-free rate is 3% and the market risk premium is 8%?**
A) 9%
B) 12%
C) 15%
D) 18%
Answer: B

6. **What does the market risk premium represent in the CAPM?**
A) The difference between the risk-free rate and the expected return on the market
B) The difference between the expected return on the market and the expected return on a risk-free asset
C) The difference between the expected return on a stock and the expected return on the market
D) The difference between the expected return on a stock and the risk-free rate
Answer: B

7. **In the CAPM, what happens to the required rate of return on a stock as its beta increases?**
A) It decreases
B) It stays the same
C) It increases

D) It depends on the risk-free rate
Answer: C

8. **What is the risk-free rate in the CAPM?**
A) The rate of return on a risk-free asset
B) The rate of return on the market portfolio
C) The difference between the expected return on a stock and the expected return on a risk-free asset
D) The difference between the expected return on the market and the expected return on a risk-free asset
Answer: A

9. **According to the CAPM, what is the expected return on a stock with a beta of 0.5 if the risk-free rate is 2% and the market risk premium is 6%?**
A) 2%
B) 5%
C) 8%
D) 11%
Answer: C

10. **What is the market portfolio in the CAPM?**
A) The portfolio that contains all stocks in the market
B) The portfolio that contains only risky assets
C) The portfolio that contains all assets in the market
D) The portfolio that contains only risk-free assets
Answer: A

Lec 27 - Risk and portfolio theory & CAPM, criticism of CAPM and application of risk theory.

1. **Which of the following is NOT a characteristic of systematic risk?**
A) It cannot be diversified away.
B) It affects the entire market or a broad segment of it.
C) It is also known as market risk.
D) It is unique to a particular company or industry.

Answer: D) It is unique to a particular company or industry.

2. **Which of the following is a measure of a security's systematic risk?**
A) Alpha
B) Beta
C) R-squared
D) Standard deviation

Answer: B) Beta

3. **According to the Capital Asset Pricing Model (CAPM), the expected return on a security is equal to:**
A) the risk-free rate plus the market risk premium.
B) the market return minus the risk-free rate.
C) the security's beta times the market risk premium.
D) the security's beta divided by the market risk premium.

Answer: A) the risk-free rate plus the market risk premium.

4. **The risk-free rate of return is typically measured using:**
A) the return on Treasury bills.
B) the return on common stocks.
C) the return on corporate bonds.
D) the return on preferred stock.

Answer: A) the return on Treasury bills.

5. **The Security Market Line (SML) in the CAPM represents:**
A) the relationship between a security's expected return and its beta.
B) the relationship between a security's expected return and its standard deviation.
C) the relationship between a security's expected return and its alpha.
D) the relationship between a security's expected return and the market return.

Answer: A) the relationship between a security's expected return and its beta.

6. The beta of a diversified portfolio is:
A) the weighted average of the betas of the individual securities in the portfolio.
B) always greater than 1.
C) always less than 1.
D) equal to the risk-free rate.

Answer: A) the weighted average of the betas of the individual securities in the portfolio.

7. **Which of the following is a criticism of the CAPM?**
   A) It assumes that investors are risk-averse.
   B) It assumes that investors have perfect information.
   C) It assumes that markets are efficient.
   D) It assumes that all investors have the same investment time horizon.

Answer: B) It assumes that investors have perfect information.

8. **The Sharpe Ratio is a measure of:**
   A) a security's systematic risk.
   B) a security's total risk.
   C) a security's excess return per unit of total risk.
   D) the relationship between a security's expected return and its beta.

Answer: C) a security's excess return per unit of total risk.

9. **Which of the following is an example of unsystematic risk?**
   A) A global pandemic causing a market-wide downturn.
   B) A company's CEO being indicted for fraud.
   C) A new competitor entering the market.
   D) A rise in interest rates causing bond prices to fall.

Answer: B) A company's CEO being indicted for fraud.

10. Which of the following is NOT a strategy for managing risk in a portfolio?
   A) Diversification
   B) Asset allocation
   C) Market timing
   D) Hedging

Answer: C) Market timing.

Lec 28 - Introduction to debt, efficient market & cost of capital

1. **Which of the following is a common financing tool for companies?**
   a) Equity
   b) Debentures
   c) Warrants
   d) Options
   Answer: b) Debentures

2. **In an efficient market, what do investors have access to?**
   a) All relevant information
   b) Only limited information
   c) Biased information
   d) No information
   Answer: a) All relevant information

3. **What is the cost of capital?**
   a) The cost of borrowing
   b) The interest rate on a loan
   c) The minimum return a company must earn on its investments
   d) The amount of money a company needs to operate
   Answer: c) The minimum return a company must earn on its investments

4. **Which of the following is a risk associated with debt financing?**
   a) Dilution of ownership
   b) Lower return on investment
   c) Bankruptcy
   d) No risk associated with debt financing
   Answer: c) Bankruptcy

5. **Which type of market is characterized by investors having access to all relevant information?**
   a) Inefficient market
   b) Efficient market
   c) Biased market
   d) None of the above
   Answer: b) Efficient market

6. **What is the main advantage of debt financing?**
   a) Increased ownership
   b) Lower cost of capital
   c) Higher return on investment
   d) None of the above
   Answer: b) Lower cost of capital

7. **What is the main disadvantage of debt financing?**
   a) Increased risk of bankruptcy
   b) Higher cost of capital
   c) Lower return on investment
   d) None of the above
   Answer: a) Increased risk of bankruptcy

8. **Which of the following is not a factor affecting a company's cost of capital?**
a) Interest rates
b) Inflation
c) Government regulations
d) Company's mission statement
Answer: d) Company's mission statement

9. **Which type of financing involves selling ownership in a company?**
a) Debt financing
b) Equity financing
c) Warrant financing
d) Option financing
Answer: b) Equity financing

10. **What is the relationship between risk and return?**
a) Higher risk leads to lower return
b) Lower risk leads to higher return
c) No relationship between risk and return
d) None of the above
Answer: b) Lower risk leads to higher return.

Lec 29 - WACC (Weighted Average Cost of Capital)

1. **What does WACC stand for?**
   a) Weighted Annual Cost of Capital
   b) Weighted Average Cost of Capital
   c) Weighted Asset Cost of Capital
   d) Weighted Accumulated Cost of Capital
   Answer: b) Weighted Average Cost of Capital

2. **What does WACC represent?**
   a) The maximum return that a company can earn on its investments
   b) The minimum return that a company must earn on its investments
   c) The average return that a company earns on its investments
   d) The weighted return that a company earns on its investments
   Answer: b) The minimum return that a company must earn on its investments

3. **Which components of a company's capital structure are included in the WACC calculation?**
   a) Equity and preferred stock
   b) Debt and equity
   c) Debt and preferred stock
   d) Debt, equity, and preferred stock
   Answer: b) Debt and equity

4. **How is the cost of debt calculated in the WACC formula?**
   a) Interest rate minus tax rate
   b) Interest rate plus tax rate
   c) Interest rate divided by tax rate
   d) Tax rate divided by interest rate
   Answer: a) Interest rate minus tax rate

5. **How is the cost of equity calculated in the WACC formula?**
   a) Dividend yield plus capital gains yield
   b) Dividend yield minus capital gains yield
   c) Dividend yield times capital gains yield
   d) Dividend yield divided by capital gains yield
   Answer: a) Dividend yield plus capital gains yield

6. **How does an increase in the cost of debt affect WACC?**
   a) It increases WACC
   b) It decreases WACC
   c) It has no effect on WACC
   d) It depends on the proportion of debt in the capital structure
   Answer: a) It increases WACC

7. **How does an increase in the cost of equity affect WACC?**
   a) It increases WACC
   b) It decreases WACC
   c) It has no effect on WACC
   d) It depends on the proportion of equity in the capital structure
   Answer: a) It increases WACC

8. **What is the purpose of calculating WACC?**
   a) To determine the maximum return that a company can earn on its investments
   b) To determine the minimum return that a company must earn on its investments
   c) To determine the average return that a company earns on its investments
   d) To determine the weighted return that a company earns on its investments
   Answer: b) To determine the minimum return that a company must earn on its investments

9. **How is WACC used in investment analysis?**
   a) As a hurdle rate for investment projects
   b) As a target return for investment projects
   c) As a benchmark for investment projects
   d) As a discount rate for investment projects
   Answer: d) As a discount rate for investment projects

10. **What is the relationship between WACC and a company's market value?**
    a) WACC is directly proportional to the company's market value
    b) WACC is inversely proportional to the company's market value
    c) WACC has no relationship with the company's market value
    d) It depends on other factors besides WACC
    Answer: b) WACC is inversely proportional to the company's market value

Lec 30 - . Business risk faced by firm, operating Leverage (OL), break-even point & ROE

1. **Which of the following refers to uncertainties associated with a company's operations that may affect its ability to generate profits?**
   A) Financial risk
   B) Business risk
   C) Market risk
   D) Credit risk
   Answer: B) Business risk

2. **Operating leverage is the degree to which _____ costs are present in a company's cost structure.**
   A) Variable
   B) Fixed
   C) Semi-variable
   D) None of the above
   Answer: B) Fixed

3. **Which of the following is the level of sales at which a company's revenue equals its total costs?**
   A) Profit point
   B) Break-even point
   C) Margin of safety
   D) None of the above
   Answer: B) Break-even point

4. **Return on equity (ROE) is calculated by dividing:**
   A) Net income by total equity
   B) Net income by total assets
   C) Total equity by net income
   D) Total assets by net income
   Answer: A) Net income by total equity

5. **A high operating leverage means that a company:**
   A) Has high fixed costs and low variable costs
   B) Has low fixed costs and high variable costs
   C) Has equal fixed and variable costs
   D) None of the above
   Answer: A) Has high fixed costs and low variable costs

6. **Which of the following is NOT a factor that affects a company's break-even point?**
   A) Selling price
   B) Variable costs
   C) Fixed costs
   D) Capital structure
   Answer: D) Capital structure

7. **Which of the following is a measure of a company's financial risk?**
   A) Operating leverage
   B) Break-even point

C) Debt-to-equity ratio
D) None of the above
Answer: C) Debt-to-equity ratio

8. **A company with a high degree of operating leverage is:**
A) More sensitive to changes in sales volume
B) Less sensitive to changes in sales volume
C) Not affected by changes in sales volume
D) None of the above
Answer: A) More sensitive to changes in sales volume

9. **If a company's ROE is higher than its cost of equity, then:**
A) The company is generating a profit
B) The company is generating a loss
C) The company is operating at its break-even point
D) None of the above
Answer: A) The company is generating a profit

10. **Which of the following is a measure of a company's profitability?**
A) Operating leverage
B) Break-even point
C) Gross profit margin
D) Debt-to-equity ratio
Answer: C) Gross profit margin

Lec 31 - Operating leverage and financial leverage , ROE, break even point and business risk

1. **What is operating leverage?**
a. The use of debt financing to fund a company's operations
b. The use of fixed costs in a company's operations
c. The amount of equity financing used to fund a company's operations
d. The degree of risk associated with a company's operations

Answer: b. The use of fixed costs in a company's operations

2. **What is financial leverage?**
a. The use of fixed costs in a company's operations
b. The use of debt financing to fund a company's operations
c. The amount of equity financing used to fund a company's operations
d. The degree of risk associated with a company's financial structure

Answer: b. The use of debt financing to fund a company's operations

3. **How does operating leverage impact a company's risk profile?**
a. It increases a company's risk profile
b. It decreases a company's risk profile
c. It has no impact on a company's risk profile
d. It depends on the level of fixed costs

Answer: a. It increases a company's risk profile

4. **How does financial leverage impact a company's risk profile?**
a. It increases a company's risk profile
b. It decreases a company's risk profile
c. It has no impact on a company's risk profile
d. It depends on the level of debt financing

Answer: a. It increases a company's risk profile

5. **What is the break-even point?**
a. The point at which a company's total revenue equals its total expenses
b. The point at which a company's total revenue equals its variable expenses
c. The point at which a company's total revenue equals its fixed expenses
d. The point at which a company's total revenue equals its operating expenses

Answer: c. The point at which a company's total revenue equals its fixed expenses

6. **How is the break-even point calculated?**
a. By dividing total expenses by total revenue
b. By dividing fixed expenses by the contribution margin per unit
c. By dividing variable expenses by the contribution margin per unit
d. By dividing operating expenses by total revenue

Answer: b. By dividing fixed expenses by the contribution margin per unit

7. **What is return on equity (ROE)?**
   a. The amount of debt financing used to fund a company's operations
   b. The amount of equity financing used to fund a company's operations
   c. The amount of net income returned as a percentage of shareholders' equity
   d. The amount of net income returned as a percentage of total assets

Answer: c. The amount of net income returned as a percentage of shareholders' equity

8. **How can a company increase its ROE?**
   a. By increasing sales revenue
   b. By reducing expenses
   c. By improving profit margins
   d. All of the above

Answer: d. All of the above

9. **What is business risk?**
   a. The risk associated with a company's financial structure
   b. The risk associated with a company's operations
   c. The risk associated with a company's market position
   d. The risk associated with a company's competitors

Answer: b. The risk associated with a company's operations

10. **How can a company minimize business risk?**
   a. By diversifying its operations
   b. By implementing effective risk management strategies
   c. By improving operational efficiency
   d. All of the above

Answer: d. All of the above

Lec 32 - Financial leverage and capital structure

1. **What is financial leverage?**
   a. The use of debt financing to fund a company's operations
   b. The use of equity financing to fund a company's operations
   c. The use of short-term financing to fund a company's operations
   Answer: a

2. **Which of the following can be impacted by a company's financial leverage?**
   a. Return on equity (ROE)
   b. Return on assets (ROA)
   c. Both A and B
   Answer: c

3. **What is capital structure?**
   a. The mix of debt and equity financing used by a company
   b. The amount of debt financing used by a company
   c. The amount of equity financing used by a company
   Answer: a

4. **Which of the following can impact a company's capital structure?**
   a. Market conditions
   b. Industry competition
   c. Both A and B
   Answer: c

5. **What is the cost of capital?**
   a. The cost of debt financing
   b. The cost of equity financing
   c. The overall cost of a company's financing
   Answer: c

6. **What is the break-even point?**
   a. The point at which a company generates enough revenue to cover its fixed and variable costs
   b. The point at which a company generates enough revenue to cover its fixed costs only
   c. The point at which a company generates enough revenue to cover its variable costs only
   Answer: a

7. **Which of the following can impact a company's cost of capital?**
   a. Interest rates
   b. Company size
   c. Both A and B
   Answer: a

8. **Which of the following is a benefit of debt financing?**
   a. Lower cost of capital
   b. No risk of bankruptcy
   c. No interest payments
   Answer: a

9. **Which of the following is a risk of debt financing?**
   a. Potential for bankruptcy

b. Higher cost of capital
c. Both A and B
Answer: c

10. **What is the optimal capital structure for a company?**
a. 100% debt financing
b. 100% equity financing
c. A mix of debt and equity financing that balances the benefits and risks of each
Answer: c

Lec 33 - Modifications in Millar Modigliani capital structure theory

1. **What is the Millar Modigliani capital structure theory?**
   a) A theory that states the market value of a firm is independent of its capital structure
   b) A theory that states a firm's value can be maximized by choosing the optimal debt-to-equity ratio
   c) A theory that states the cost of equity increases as the amount of debt in a company's capital structure increases
   Answer: a

2. **What is the primary modification made to the Millar Modigliani theory?**
   a) The inclusion of taxes
   b) The exclusion of taxes
   c) The inclusion of risk
   Answer: a

3. **What is the impact of taxes on a company's optimal capital structure?**
   a) It increases the use of debt financing
   b) It decreases the use of debt financing
   c) It has no impact on the use of debt financing
   Answer: a

4. **What are bankruptcy costs?**
   a) The costs associated with filing for bankruptcy
   b) The costs associated with avoiding bankruptcy
   c) The costs associated with debt financing
   Answer: a

5. **What is the impact of bankruptcy costs on a company's optimal capital structure?**
   a) It increases the use of debt financing
   b) It decreases the use of debt financing
   c) It has no impact on the use of debt financing
   Answer: b

6. **What are agency costs?**
   a) The costs associated with managing a company's operations
   b) The costs associated with the relationship between shareholders and management
   c) The costs associated with debt financing
   Answer: b

7. **What is the impact of agency costs on a company's optimal capital structure?**
   a) It increases the use of debt financing
   b) It decreases the use of debt financing
   c) It has no impact on the use of debt financing
   Answer: b

8. **What is the optimal capital structure for a company?**
   a) The capital structure that maximizes shareholder value
   b) The capital structure that minimizes financial risk
   c) The capital structure that minimizes tax liability
   Answer: a

9. **What financial ratio can be used to assess a company's financial leverage?**
   a) Debt-to-equity ratio
   b) Current ratio
   c) Return on equity (ROE)
   Answer: a

10. **What is the relationship between financial leverage and risk?**
   a) Higher financial leverage leads to lower financial risk
   b) Higher financial leverage leads to higher financial risk
   c) Financial leverage has no impact on financial risk
   Answer: b

Lec 34 - Application of Millar Modigliani and other capital structure theories

1. **Which of the following is a key benefit of applying capital structure theories?**
   A. Predicting stock market trends
   B. Making informed financing decisions
   C. Eliminating all financial risk
   D. Maximizing profits at all times
   Answer: B

2. **What does the Modigliani-Miller theorem state about the value of a firm?**
   A. The value of a firm is independent of its capital structure.
   B. The value of a firm increases as its debt-to-equity ratio increases.
   C. The value of a firm decreases as its debt-to-equity ratio decreases.
   D. The value of a firm is determined solely by its equity.
   Answer: A

3. **What is the optimal capital structure for a firm according to the Modigliani-Miller theorem?**
   A. 100% debt financing
   B. 100% equity financing
   C. A mix of debt and equity that maximizes the value of the firm
   D. No financing at all
   Answer: C

4. **Which of the following is a limitation of the Modigliani-Miller theorem?**
   A. It assumes that markets are perfect and efficient.
   B. It assumes that companies have unlimited access to capital.
   C. It assumes that the cost of equity is constant.
   D. It does not account for the tax benefits of debt financing.
   Answer: D

5. **Which of the following is a modification of the Modigliani-Miller theorem?**
   A. The static tradeoff theory
   B. The pecking order theory
   C. The agency cost theory
   D. The efficient market hypothesis
   Answer: A

6. **According to the static tradeoff theory, what is the optimal level of debt for a firm?**
   A. The maximum amount of debt that can be obtained
   B. The minimum amount of debt necessary to avoid bankruptcy
   C. A level of debt that balances the tax benefits and costs of financial distress
   D. No debt at all
   Answer: C

7. **What is the pecking order theory?**
   A. A theory that states that companies prefer to use debt financing over equity financing.
   B. A theory that states that companies prefer to use equity financing over debt financing.
   C. A theory that states that companies have no preference between debt and equity financing.
   D. A theory that states that companies should use a combination of debt and equity financing to optimize their capital structure.
   Answer: B

8. **What is the agency cost theory?**
A. A theory that states that companies face costs associated with conflicts of interest between shareholders and management.
B. A theory that states that companies face costs associated with bankruptcy.
C. A theory that states that companies face costs associated with taxes.
D. A theory that states that companies face costs associated with financial distress.
Answer: A

9. **What is the role of financial leverage in determining a company's capital structure?**
A. Financial leverage is the primary determinant of a company's capital structure.
B. Financial leverage is not a significant factor in determining a company's capital structure.
C. Financial leverage can affect a company's cost of capital and risk profile, which in turn can influence its capital structure.
D. Financial leverage has no effect on a company's capital structure.
Answer: C

10. **What is the primary goal of a company's capital structure decisions?**
A. Maximizing profits
B. Minimizing risk
C. Maximizing shareholder value
D. Minimizing the cost of capital
Answer: C

Lec 35 - Net income & tax shield approaches to WACC

1. **What is the main difference between the net income approach and tax shield approach to WACC?**

A) The net income approach includes tax benefits of debt, while tax shield approach does not.
B) The net income approach considers the cost of equity, while tax shield approach does not.
C) The net income approach is more complex than the tax shield approach.
D) The tax shield approach underestimates the WACC, while net income approach overestimates it.

Answer: A

2. **Which approach considers the tax savings from interest payments in the calculation of WACC?**

A) Net income approach
B) Tax shield approach
C) Both approaches
D) Neither approach

Answer: B

3. **In the tax shield approach, what is the value of the tax shield?**

A) Interest expense x Tax rate
B) Debt x Tax rate
C) Equity x Tax rate
D) Interest expense + Tax rate

Answer: A

4. **Which of the following is a drawback of using the net income approach to calculate WACC?**

A) It does not account for the tax savings from interest payments.
B) It overestimates the WACC.
C) It is more complex than the tax shield approach.
D) It requires more data inputs than the tax shield approach.

Answer: A

5. **Which approach is more commonly used in practice?**

A) Net income approach
B) Tax shield approach
C) Both approaches equally
D) Neither approach

Answer: B

6. **What is the formula for calculating the after-tax cost of debt in the net income approach?**

A) Cost of debt x (1 - Tax rate)
B) Cost of debt + Tax rate
C) Cost of debt x Tax rate
D) Cost of debt / (1 - Tax rate)

Answer: A

7. **Which approach may result in a lower WACC?**

A) Net income approach
B) Tax shield approach
C) Both approaches
D) Neither approach

Answer: B

8. **What is the main advantage of using the net income approach to calculate WACC?**

A) It is simpler than the tax shield approach.
B) It provides a more accurate estimate of WACC.
C) It accounts for the tax savings from interest payments.
D) It is more commonly used in practice.

Answer: A

9. **What is the formula for calculating WACC using the tax shield approach?**

A) (Cost of equity x Equity weight) + (Cost of debt x Debt weight)
B) (Cost of equity / Equity weight) + (Cost of debt / Debt weight)
C) (Cost of equity x Equity weight) - (Cost of debt x Tax rate x Debt weight)
D) (Cost of equity / Equity weight) - (Cost of debt x Tax rate x Debt weight)

Answer: C

10. **Which approach results in a higher cost of equity in the calculation of WACC?**

A) Net income approach
B) Tax shield approach
C) Both approaches
D) Neither approach

Answer: A

Lec 36 - Management of capital structure

1. **What is the primary goal of capital structure management?**
A) To maximize shareholder wealth
B) To minimize the cost of capital
C) To increase market share
D) To decrease financial risk
Solution: A) To maximize shareholder wealth

2. **Which of the following is a disadvantage of using debt financing?**
A) Interest payments are tax-deductible
B) It increases financial leverage
C) It reduces the cost of capital
D) It increases the value of the firm
Solution: B) It increases financial leverage

3. **Which of the following represents the ideal capital structure for a company?**
A) All equity financing
B) All debt financing
C) A mix of debt and equity financing
D) None of the above
Solution: C) A mix of debt and equity financing

4. **What is the primary advantage of using equity financing?**
A) It reduces financial risk
B) It provides tax benefits
C) It allows for higher leverage
D) It doesn't require repayment
Solution: D) It doesn't require repayment

5. **What is the optimal debt-to-equity ratio for a company?**
A) 0.5
B) 1.0
C) 1.5
D) There is no universal optimal ratio
Solution: D) There is no universal optimal ratio

6. **Which of the following is an example of external financing?**
A) Retained earnings
B) Issuing bonds
C) Selling company assets
D) All of the above
Solution: B) Issuing bonds

7. What is the cost of capital?
A) The total amount of money a company has available for investment
B) The amount of money a company pays for its debt and equity financing
C) The rate of return a company expects to earn on its investments
D) The amount of money a company owes its creditors
Solution: B) The amount of money a company pays for its debt and equity financing

8. **What is financial leverage?**
A) The use of borrowed funds to finance investments
B) The amount of debt a company has
C) The degree to which a company uses its assets to generate revenue
D) The ratio of a company's debt to equity
Solution: A) The use of borrowed funds to finance investments

9. **Which of the following is a factor that can affect a company's cost of debt?**
A) The company's credit rating
B) The level of competition in the market
C) The company's product offering
D) The company's stock price
Solution: A) The company's credit rating

10. **What is the primary disadvantage of using equity financing?**
A) It increases the company's financial risk
B) It results in higher interest payments
C) It dilutes existing shareholder ownership
D) It requires repayment
Solution: C) It dilutes existing shareholder ownership

Lec 37 - Dividend payout

1. **What is a dividend payout?**
   a) The amount of money that a company pays to its employees
   b) The amount of money that a company pays to its shareholders
   c) The amount of money that a company pays to its creditors
   Answer: b) The amount of money that a company pays to its shareholders

2. **Which of the following can companies use to pay dividends?**
   a) Cash
   b) Additional shares of stock
   c) Both A and B
   Answer: c) Both A and B

3. **How do companies determine the amount of dividend payout?**
   a) Based on their financial performance
   b) Based on the number of shareholders
   c) Based on the size of the company
   Answer: a) Based on their financial performance

4. **What is a regular dividend payout?**
   a) Dividend payout that is paid out irregularly
   b) Dividend payout that is paid out at a fixed interval
   c) Dividend payout that is paid out only once
   Answer: b) Dividend payout that is paid out at a fixed interval

5. **What is a special dividend payout?**
   a) Dividend payout that is paid out irregularly
   b) Dividend payout that is paid out at a fixed interval
   c) Dividend payout that is paid out only once
   Answer: a) Dividend payout that is paid out irregularly

6. **Which of the following factors can impact dividend payout?**
   a) Company's financial performance
   b) Economic conditions
   c) Regulatory environment
   d) All of the above
   Answer: d) All of the above

7. **What is a dividend yield?**
   a) The total amount of dividend paid out by a company
   b) The percentage of dividend payout relative to the stock price
   c) The percentage of dividend payout relative to the company's earnings
   Answer: b) The percentage of dividend payout relative to the stock price

8. **What is a dividend reinvestment plan (DRIP)?**
   a) A plan where companies reinvest their dividends in their own stock
   b) A plan where shareholders can reinvest their dividends to purchase additional shares of stock
   c) A plan where shareholders can sell their dividends to other investors
   Answer: b) A plan where shareholders can reinvest their dividends to purchase additional shares of stock

9. **Which of the following statements is true about dividend payout?**
a) Dividend payout is mandatory for all companies
b) Dividend payout is optional for companies
c) Dividend payout is required only for publicly traded companies
Answer: b) Dividend payout is optional for companies

10. **Which of the following is a disadvantage of high dividend payout for a company?**
a) Decreased shareholder loyalty
b) Reduced access to capital
c) Increased financial risk
Answer: b) Reduced access to capital

Lec 38 - Application of residual dividend model

1. **What is the residual dividend model based on?**
   a) Paying dividends first and investing later
   b) Investing first and paying dividends later
   c) Paying dividends and investing at the same time
   d) None of the above

Answer: b) Investing first and paying dividends later

2. **What principle does the residual dividend model follow?**
   a) Invest in projects with negative net present value
   b) Only distribute profits as dividends
   c) Invest in projects with positive net present value and distribute remaining profits as dividends
   d) None of the above

Answer: c) Invest in projects with positive net present value and distribute remaining profits as dividends

3. **Which type of companies is the residual dividend model particularly useful for?**
   a) Companies with stable earnings
   b) Companies with fluctuating earnings
   c) Companies that do not pay dividends
   d) None of the above

Answer: b) Companies with fluctuating earnings

4. **What does the residual dividend model ensure?**
   a) Companies pay dividends before investing in projects
   b) Companies invest in projects with negative net present value
   c) Companies retain sufficient funds for future growth while rewarding shareholders with surplus profits
   d) None of the above

Answer: c) Companies retain sufficient funds for future growth while rewarding shareholders with surplus profits

5. **Which of the following is true about the residual dividend model?**
   a) It provides a rigid framework for dividend distribution
   b) It cannot accommodate changing circumstances
   c) It is only applicable to high-growth industries
   d) It provides a flexible framework for dividend distribution that can accommodate changing circumstances

Answer: d) It provides a flexible framework for dividend distribution that can accommodate changing circumstances

6. **What does the residual dividend model prioritize?**
   a) Maximizing shareholder value at the expense of future growth
   b) Retaining sufficient funds for future growth while maximizing shareholder value

c) Maximizing company growth at the expense of shareholder value
d) None of the above

Answer: b) Retaining sufficient funds for future growth while maximizing shareholder value

7. **What is the basis for determining the amount of dividend to be paid under the residual dividend model?**
a) Current market conditions
b) Past dividend payouts
c) Surplus profits after investment needs are met
d) None of the above

Answer: c) Surplus profits after investment needs are met

8. **Which of the following is a disadvantage of the residual dividend model?**
a) It does not prioritize shareholder value
b) It may result in inconsistent dividend payments
c) It does not allow for future growth
d) None of the above

Answer: b) It may result in inconsistent dividend payments

9. **What type of companies are likely to use the residual dividend model?**
a) Start-ups with high growth potential
b) Established companies with stable earnings
c) Companies that do not pay dividends
d) None of the above

Answer: a) Start-ups with high growth potential

10. **What is the primary benefit of the residual dividend model?**
a) It ensures consistent dividend payments
b) It prioritizes future growth over shareholder value
c) It provides a flexible framework for dividend distribution that can accommodate changing circumstances
d) None of the above

Answer: c) It provides a flexible framework for dividend distribution that can accommodate changing circumstances

Lec 39 - Working capital management

1. **What is working capital management?**
a. Managing long-term assets and liabilities
b. Managing short-term assets and liabilities
c. Managing capital structure
d. Managing cash flows

Answer: b. Managing short-term assets and liabilities

2. **What are the components of working capital?**
a. Fixed assets and equity
b. Accounts receivable and accounts payable
c. Long-term debt and preferred stock
d. Retained earnings and common stock

Answer: b. Accounts receivable and accounts payable

3. **What is the primary objective of working capital management?**
a. Maximizing shareholder value
b. Maximizing profits
c. Maintaining liquidity
d. Increasing debt capacity

Answer: c. Maintaining liquidity

4. **What is the cash conversion cycle?**
a. The time it takes to collect accounts receivable
b. The time it takes to pay accounts payable
c. The time it takes to convert inventory into cash
d. All of the above

Answer: d. All of the above

5. **What is the optimal level of working capital?**
a. As high as possible
b. As low as possible
c. Equal to zero
d. None of the above

Answer: d. None of the above

6. **What is the trade-off between profitability and liquidity in working capital management?**
a. The higher the profitability, the higher the liquidity
b. The higher the liquidity, the lower the profitability
c. The higher the profitability, the lower the liquidity
d. There is no trade-off between profitability and liquidity

Answer: b. The higher the liquidity, the lower the profitability

7. **What is accounts receivable turnover?**
   a. The number of days it takes to collect accounts receivable
   b. The ratio of sales to accounts receivable
   c. The ratio of accounts receivable to total assets
   d. The ratio of accounts receivable to accounts payable

Answer: b. The ratio of sales to accounts receivable

8. **What is the inventory turnover ratio?**
   a. The number of days it takes to sell inventory
   b. The ratio of sales to inventory
   c. The ratio of inventory to total assets
   d. The ratio of inventory to accounts payable

Answer: b. The ratio of sales to inventory

9. **What is the cash budget?**
   a. A forecast of expected cash inflows and outflows
   b. A report of actual cash inflows and outflows
   c. A plan to reduce cash balances
   d. A statement of cash flows

Answer: a. A forecast of expected cash inflows and outflows

10. **What is the role of a working capital manager?**
   a. To manage long-term investments
   b. To manage short-term investments
   c. To manage capital structure
   d. To manage financing decisions

Answer: b. To manage short-term investments

Lec 40 - . Cash management & working capital financing

1. **What is cash management?**
a) Management of long-term investments
b) Management of short-term assets
c) Management of employee salaries
d) Management of capital expenditure
Answer: b) Management of short-term assets

2. **What is the primary goal of cash management?**
a) To maximize profitability
b) To minimize expenses
c) To optimize cash flow
d) To reduce debt
Answer: c) To optimize cash flow

3. **What is working capital financing?**
a) Financing for long-term assets
b) Financing for short-term assets
c) Financing for employee salaries
d) Financing for marketing expenses
Answer: b) Financing for short-term assets

4. **Which of the following is an example of a short-term financing option for working capital?**
a) Equity financing
b) Bonds
c) Trade credit
d) Venture capital
Answer: c) Trade credit

5. **What is the cash conversion cycle?**
a) The time it takes to sell inventory
b) The time it takes to collect accounts receivable
c) The time it takes to pay accounts payable
d) All of the above
Answer: d) All of the above

6. **What is the purpose of a cash budget?**
a) To project cash inflows and outflows
b) To track inventory levels
c) To calculate employee salaries
d) To forecast long-term investments
Answer: a) To project cash inflows and outflows

7. **Which of the following is a common tool for managing cash flow?**
a) Accounts receivable aging report
b) Balance sheet
c) Income statement
d) Cash flow statement
Answer: d) Cash flow statement

8. **What is the role of a line of credit in working capital financing?**
   a) To provide long-term financing
   b) To provide short-term financing
   c) To fund capital investments
   d) To finance mergers and acquisitions
   Answer: b) To provide short-term financing

9. **Which of the following is an example of an operating expense?**
   a) Interest on a loan
   b) Payment for raw materials
   c) Purchase of long-term assets
   d) Investment in a new business venture
   Answer: b) Payment for raw materials

10. **Which of the following is a benefit of effective cash management?**
   a) Reduced profitability
   b) Increased expenses
   c) Improved liquidity
   d) Increased debt
   Answer: c) Improved liquidity

Lec 41 - Short term financing, long term financing and lease financing

1. **Which of the following financing options is typically used for working capital needs?**
   a) Long term financing
   b) Lease financing
   c) Short term financing
   d) Equity financing
   Solution: c) Short term financing

2. **Which of the following is a disadvantage of short term financing?**
   a) It is easy to obtain
   b) It can be expensive
   c) It can be used for long term investments
   d) It does not require collateral
   Solution: b) It can be expensive

3. **Which of the following financing options is typically used for capital investments?**
   a) Long term financing
   b) Lease financing
   c) Short term financing
   d) Equity financing
   Solution: a) Long term financing

4. **Which of the following is a disadvantage of long term financing?**
   a) It is difficult to obtain
   b) It can be expensive
   c) It is typically used for short term needs
   d) It does not require collateral
   Solution: b) It can be expensive

5. **Which of the following financing options involves regular payments in exchange for the use of an asset?**
   a) Long term financing
   b) Lease financing
   c) Short term financing
   d) Equity financing
   Solution: b) Lease financing

6. **Which of the following is an advantage of lease financing?**
   a) The lessee owns the asset
   b) It is typically more expensive than other financing options
   c) It allows for flexibility in equipment upgrades
   d) It requires a large upfront investment
   Solution: c) It allows for flexibility in equipment upgrades

7. **Which of the following financing options typically requires collateral?**
   a) Long term financing
   b) Lease financing
   c) Short term financing
   d) Equity financing
   Solution: a) Long term financing

8. **Which of the following is a disadvantage of equity financing?**
   a) It is expensive
   b) It requires regular payments
   c) It can dilute ownership
   d) It requires collateral
   Solution: c) It can dilute ownership

9. **Which of the following financing options is typically used for real estate purchases?**
   a) Long term financing
   b) Lease financing
   c) Short term financing
   d) Equity financing
   Solution: a) Long term financing

10. **Which of the following financing options is typically used for equipment purchases?**
    a) Long term financing
    b) Lease financing
    c) Short term financing
    d) Equity financing
    Solution: b) Lease financing

Lec 42 - Lease financing and types of lease financing

1. **What is lease financing?**
   a. Borrowing money for a period of up to one year
   b. Obtaining the use of an asset without owning it in exchange for regular payments
   c. Purchasing an asset outright with cash
   Solution: b

2. **Which type of lease allows the lessee to use an asset for a short period of time without assuming any of the risks of ownership?**
   a. Finance lease
   b. Operating lease
   c. Sale and leaseback arrangement
   Solution: b

3. **Which type of lease allows the lessee to purchase the asset at the end of the lease term?**
   a. Finance lease
   b. Operating lease
   c. Sale and leaseback arrangement
   Solution: a

4. **Which type of lease involves the sale of an asset to a lessor, who then leases the asset back to the original owner?**
   a. Finance lease
   b. Operating lease
   c. Sale and leaseback arrangement
   Solution: c

5. **What is the main advantage of operating leases?**
   a. Lower overall costs
   b. Ability to purchase the asset at the end of the lease term
   c. Flexibility in upgrading equipment
   Solution: c

6. **What is the main advantage of finance leases?**
   a. Lower overall costs
   b. Flexibility in upgrading equipment
   c. Ability to purchase the asset at the end of the lease term
   Solution: a

7. **What is the main disadvantage of sale and leaseback arrangements?**
   a. Higher interest rates
   b. Restrictions on how the funds can be used
   c. Potential long-term commitments
   Solution: c

8. **Which type of lease financing may offer potential tax benefits?**
   a. Finance lease
   b. Operating lease
   c. Sale and leaseback arrangement
   Solution: b

9. **Which type of lease financing may require the lessee to assume all risks associated with ownership?**
a. Finance lease
b. Operating lease
c. Sale and leaseback arrangement
Solution: a

10. **Which type of lease financing may require the lessor to maintain and repair the leased asset?**
a. Finance lease
b. Operating lease
c. Sale and leaseback arrangement
Solution: b

Lec 43 - Mergers & acquisitions

1. **What is a merger?**
   a) The acquisition of one company by another
   b) The combination of two or more companies to form a new entity
   c) The transfer of assets from one company to another
   Answer: b

2. **What is an acquisition?**
   a) The combination of two or more companies to form a new entity
   b) The acquisition of one company by another
   c) The transfer of assets from one company to another
   Answer: b

3. **Which of the following is a reason for M&A?**
   a) Seeking growth opportunities
   b) Reducing the number of employees
   c) Decreasing market share
   Answer: a

4. **What is the due diligence process in M&A?**
   a) A process of evaluating the financial and legal aspects of a company before acquisition
   b) A process of evaluating the employee performance of a company before acquisition
   c) A process of evaluating the advertising and marketing strategies of a company before acquisition
   Answer: a

5. **What is the difference between a horizontal and a vertical merger?**
   a) Horizontal merger involves two companies in the same industry, while vertical merger involves two companies in different industries
   b) Vertical merger involves two companies in the same industry, while horizontal merger involves two companies in different industries
   c) Both horizontal and vertical mergers involve companies in different industries
   Answer: b

6. **What is a hostile takeover?**
   a) A takeover in which the acquiring company makes an offer to the target company's shareholders without the approval of the target company's board of directors
   b) A takeover in which the acquiring company and target company mutually agree to the acquisition terms
   c) A takeover in which the acquiring company buys only a portion of the target company's assets
   Answer: a

7. **What is a leveraged buyout (LBO)?**
   a) A type of M&A in which the acquiring company takes on a significant amount of debt to finance the acquisition
   b) A type of M&A in which the acquiring company pays for the acquisition in cash
   c) A type of M&A in which the acquiring company offers shares of its stock in exchange for the target company's stock
   Answer: a

8. **What is a white knight?**
   a) A company that makes a higher offer than the original acquirer in a hostile takeover situation
   b) A company that buys another company's assets without acquiring the entire company
   c) A company that is the target of a hostile takeover and seeks a friendly acquirer to avoid being acquired by the original acquirer
   Answer: c

9. **What is an earnout agreement?**
   a) An agreement in which the target company receives additional payments based on the performance of the acquired business after the acquisition
   b) An agreement in which the acquiring company receives additional payments based on the performance of the acquired business after the acquisition
   c) An agreement in which the target company receives a lump sum payment for the acquisition of its business
   Answer: a

10. **What is a spin-off?**
   a) A process in which a company sells off a portion of its assets to another company
   b) A process in which a company separates a division or subsidiary into a separate, independent company
   c) A process in which a company acquires another company in the same industry
   Answer: b

Lec 44 - International finance (Multinational Finance)

1. **Which of the following is NOT a risk associated with international finance?**
   a) Political risk
   b) Exchange rate risk
   c) Interest rate risk
   d) Domestic market risk
   Answer: d) Domestic market risk

2. **What is the primary goal of multinational corporations in managing international finance?**
   a) Maximizing shareholder wealth
   b) Minimizing tax liabilities
   c) Achieving social responsibility
   d) Maximizing employee benefits
   Answer: a) Maximizing shareholder wealth

3. **What is the term for the exchange rate at which a currency can be exchanged for another currency?**
   a) Cross rate
   b) Spot rate
   c) Forward rate
   d) Currency rate
   Answer: b) Spot rate

4. **Which of the following is NOT a type of foreign exchange exposure?**
   a) Transaction exposure
   b) Translation exposure
   c) Economic exposure
   d) Interest rate exposure
   Answer: d) Interest rate exposure

5. **What is the term for the difference between a country's exports and imports?**
   a) Trade deficit
   b) Balance of payments
   c) Exchange rate
   d) Foreign direct investment
   Answer: a) Trade deficit

6. **What is the primary objective of a multinational corporation in using derivatives to manage foreign exchange risk?**
   a) Speculation
   b) Hedging
   c) Arbitrage
   d) None of the above
   Answer: b) Hedging

7. **Which of the following is an example of a direct foreign investment?**
   a) Exporting goods to a foreign country
   b) Licensing a technology to a foreign company
   c) Acquiring a foreign company
   d) Purchasing foreign currency

Answer: c) Acquiring a foreign company

8. **What is the term for the risk that a foreign government may expropriate a company's assets?**
a) Political risk
b) Economic risk
c) Exchange rate risk
d) Credit risk
Answer: a) Political risk

9. **Which of the following is NOT a factor that affects the exchange rate of a currency?**
a) Inflation rate
b) Interest rate
c) Economic growth
d) Political stability
Answer: d) Political stability

10. **What is the term for the transfer of funds between countries for the purpose of financing international trade?**
a) Foreign direct investment
b) International portfolio investment
c) International trade financing
d) None of the above
Answer: c) International trade financing

Lec 45 - . Final review of entire course of financial management

1. **What is the time value of money?**
A. The concept that money is worth more today than in the future
B. The concept that money is worth less today than in the future
C. The concept that money has no value over time
Answer: A

2. **Which of the following is an example of a long-term financing option?**
A. Bank overdraft
B. Trade credit
C. Bonds
Answer: C

3. **What is the purpose of capital budgeting?**
A. To determine how much working capital a company needs
B. To identify investment opportunities that will generate long-term returns
C. To manage the day-to-day cash flows of a company
Answer: B

4. **What is the formula for calculating net present value (NPV)?**
A. PV of cash inflows - PV of cash outflows
B. PV of cash inflows + PV of cash outflows
C. PV of cash inflows / PV of cash outflows
Answer: A

5. **What is the optimal level of working capital?**
A. The highest possible level to ensure sufficient liquidity
B. The lowest possible level to minimize costs
C. The level that balances liquidity and profitability
Answer: C

6. **What is financial leverage?**
A. The use of debt financing to increase returns to shareholders
B. The use of equity financing to increase returns to shareholders
C. The use of short-term financing to increase returns to shareholders
Answer: A

7. **Which financial statement shows a company's financial position at a specific point in time?**
A. Income statement
B. Statement of cash flows
C. Balance sheet
Answer: C

8. **What is the role of the financial manager in a company?**
A. To manage the day-to-day operations of the company
B. To make investment decisions that maximize shareholder value
C. To market the company's products and services
Answer: B

9. **Which of the following is an example of an ethical issue in financial management?**
   A. Misleading financial reporting
   B. Paying employees a fair wage
   C. Providing excellent customer service
   Answer: A

10. **What is the purpose of financial analysis?**
    A. To compare a company's financial performance to its competitors
    B. To determine the market demand for a company's products
    C. To identify potential investment opportunities
    Answer: A