MGT201 Financial Management

Important mcqs

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 riskfree 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

	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