# 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 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