# 9 Lecture - MGT201

## **Important Mcqs**

## 1. What is net present value (NPV)?

- a. The sum of expected cash inflows
- b. The difference between expected cash inflows and outflows
- c. The present value of expected cash inflows minus the present value of expected cash outflows
- d. The future value of expected cash inflows

## Answer: c

#### 2. What is internal rate of return (IRR)?

- a. The rate at which the present value of expected cash inflows equals the present value of expected cash outflows
- b. The rate at which the future value of expected cash inflows equals the future value of expected cash outflows
- c. The rate at which the expected cash inflows are greater than the expected cash outflows
- d. The rate at which the expected cash outflows are greater than the expected cash inflows

#### Answer: a

## 3. Which of the following is true about NPV?

- a. A project is acceptable if its NPV is negative
- b. NPV considers the time value of money
- c. NPV is not affected by the discount rate
- d. NPV only considers cash inflows

## Answer: b

## 4. Which of the following is true about IRR?

- a. A project is acceptable if its IRR is less than the required rate of return
- b. IRR does not consider the time value of money
- c. IRR is the same as the cost of capital
- d. IRR is a measure of profitability

## Answer: d

## 5. If the NPV of a project is zero, what does this mean?

- a. The project is not profitable
- b. The project is only profitable if the discount rate is increased
- c. The project is only profitable if the discount rate is decreased
- d. The project is just breaking even

#### Answer: d

## 6. Which of the following is a disadvantage of using IRR as a capital budgeting technique?

- a. It is difficult to calculate
- b. It does not consider the time value of money
- c. It can have multiple solutions
- d. It is not affected by the discount rate

#### Answer: c

## 7. Which of the following is a limitation of using NPV as a capital budgeting technique?

- a. It does not consider the time value of money
- b. It can be difficult to interpret for projects with multiple cash flows
- c. It does not consider the risk associated with the project
- d. It is affected by the discount rate

## Answer: b

## 8. When evaluating two investment projects using NPV, which project is more desirable?

- a. The project with a lower NPV
- b. The project with a higher NPV
- c. The project with a zero NPV
- d. It depends on the discount rate

## Answer: b

## 9. What is the required rate of return?

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

#### Answer: a

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

#### Answer: b