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