

12 Lecture - MGT201

Important Mcqs

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

Answer: c) Capital rationing

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

Answer: c) Net present value (NPV)

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

Answer: c) It considers the time value of money.

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

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

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

Answer: c) To maximize shareholder wealth

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

Answer: c) It does not provide a dollar amount for the project's profitability.

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

Answer: d) It is based on estimates and assumptions.

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

Answer: c) The timing of the project's cash flows

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

Answer: c) It provides a clear indication of profitability.

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

Answer: b) Internal rate of return (IRR)