28 Lecture - MGT201

Important Subjective

1. **What is debt financing?**
   Answer: Debt financing involves borrowing money from lenders in exchange for a promise to repay the borrowed amount with interest over a specific period.
2. **What is an efficient market?**
   Answer: An efficient market is a financial market where all relevant information is publicly available and incorporated into the stock prices, making it difficult for investors to earn excess profits.
3. **What is the cost of debt?**
   Answer: The cost of debt is the interest rate that a company must pay on the money it borrows through debt financing.
4. **What is the cost of equity?**
   Answer: The cost of equity is the rate of return that a company must pay to its equity investors to compensate them for the risk they take by investing in the company.
5. **What is the cost of capital?**
   Answer: The cost of capital is the weighted average cost of a company's debt and equity financing.
6. **What is the relationship between debt and risk?**
   Answer: Debt increases a company's financial risk because the company has an obligation to pay back the borrowed amount with interest. If the company is unable to meet its debt obligations, it may face bankruptcy.
7. **What are the advantages of debt financing?**
   Answer: The advantages of debt financing include lower cost of capital, tax-deductible interest payments, and greater control for the company's owners.
8. **What are the disadvantages of debt financing?**
   Answer: The disadvantages of debt financing include increased financial risk, potential for bankruptcy, and reduced flexibility in the company's financial decisions.
9. **How does the efficient market hypothesis impact investors?**
   Answer: The efficient market hypothesis suggests that it is difficult for investors to earn excess profits by trading in financial markets. Therefore, investors must rely on fundamental analysis to make informed investment decisions.
10. **How does the cost of capital impact a company's investment decisions?**
    Answer: A company's cost of capital is the minimum return it must earn on its investments to satisfy investors' expectations and maintain its market value. If the company's cost of capital is high, it may be more selective in its investment decisions to ensure that its projects can generate sufficient returns to meet its cost of capital.