

29 Lecture - MGT201

Important Mcqs

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