29 Lecture - MGT201

Important Subjective

1. **What is the formula for calculating WACC?**
Answer: WACC = (E/V x Re) + (D/V x Rd x (1 - Tc)), where E is equity, V is the total value of the company, Re is the cost of equity, D is debt, Rd is the cost of debt, and Tc is the corporate tax rate.

2. **What is the significance of WACC in capital budgeting decisions?**
Answer: WACC is used as a discount rate to evaluate investment projects. It represents the minimum rate of return that a company must earn on its investments to maintain its market value.

3. **What factors affect the cost of debt?**
Answer: The factors that affect the cost of debt include the creditworthiness of the borrower, the prevailing interest rates, the maturity period of the debt, and the collateral or security offered by the borrower.

4. **What factors affect the cost of equity?**
Answer: The factors that affect the cost of equity include the risk-free rate of return, the equity risk premium, the company's beta, and the market risk premium.

5. **What is the impact of a high WACC on a company's valuation?**
Answer: A high WACC indicates that the company has a high cost of capital, which can negatively impact the company's valuation, as it reduces the net present value of future cash flows.

6. **What is the relationship between WACC and the capital structure of a company?**
Answer: WACC is affected by the capital structure of a company, as it is calculated based on the weights assigned to debt and equity in the company's capital structure.

7. **What is the impact of a change in the corporate tax rate on WACC?**
Answer: A change in the corporate tax rate can impact WACC, as it affects the after-tax cost of debt, which is a component of WACC.

8. **What is the impact of a high debt-to-equity ratio on WACC?**
Answer: A high debt-to-equity ratio increases the weight of debt in the capital structure, which increases the cost of capital and thus increases WACC.

9. **What is the impact of a high cost of equity on WACC?**
Answer: A high cost of equity increases the overall cost of capital, which increases WACC.

10. **What is the impact of a change in interest rates on WACC?**
Answer: A change in interest rates can impact the cost of debt, which is a component of WACC, and thus can impact WACC.