33 Lecture - MGT201

Important Mcqs

1. What is the Millar Modigliani capital structure theory?

- a) A theory that states the market value of a firm is independent of its capital structure
- b) A theory that states a firm's value can be maximized by choosing the optimal debt-to-equity ratio
- c) A theory that states the cost of equity increases as the amount of debt in a company's capital structure increases

Answer: a

2. What is the primary modification made to the Millar Modigliani theory?

- a) The inclusion of taxes
- b) The exclusion of taxes
- c) The inclusion of risk

Answer: a

3. What is the impact of taxes on a company's optimal capital structure?

- a) It increases the use of debt financing
- b) It decreases the use of debt financing
- c) It has no impact on the use of debt financing

Answer: a

4. What are bankruptcy costs?

- a) The costs associated with filing for bankruptcy
- b) The costs associated with avoiding bankruptcy
- c) The costs associated with debt financing

Answer: a

5. What is the impact of bankruptcy costs on a company's optimal capital structure?

- a) It increases the use of debt financing
- b) It decreases the use of debt financing
- c) It has no impact on the use of debt financing

Answer: b

6. What are agency costs?

- a) The costs associated with managing a company's operations
- b) The costs associated with the relationship between shareholders and management
- c) The costs associated with debt financing

Answer: b

7. What is the impact of agency costs on a company's optimal capital structure?

- a) It increases the use of debt financing
- b) It decreases the use of debt financing
- c) It has no impact on the use of debt financing

Answer: b

8. What is the optimal capital structure for a company?

- a) The capital structure that maximizes shareholder value
- b) The capital structure that minimizes financial risk
- c) The capital structure that minimizes tax liability

Answer: a

9. What financial ratio can be used to assess a company's financial leverage?

- a) Debt-to-equity ratio
- b) Current ratio
- c) Return on equity (ROE)

Answer: a

10. What is the relationship between financial leverage and risk?

- a) Higher financial leverage leads to lower financial risk
- b) Higher financial leverage leads to higher financial risk
- c) Financial leverage has no impact on financial risk

Answer: b