

# 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**