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