34 Lecture - MGT201

Important Mcqs

1. Which of the following is a key benefit of applying capital structure theories?

- A. Predicting stock market trends
- B. Making informed financing decisions
- C. Eliminating all financial risk
- D. Maximizing profits at all times

Answer: B

2. What does the Modigliani-Miller theorem state about the value of a firm?

- A. The value of a firm is independent of its capital structure.
- B. The value of a firm increases as its debt-to-equity ratio increases.
- C. The value of a firm decreases as its debt-to-equity ratio decreases.
- D. The value of a firm is determined solely by its equity.

Answer: A

3. What is the optimal capital structure for a firm according to the Modigliani-Miller theorem?

- A. 100% debt financing
- B. 100% equity financing
- C. A mix of debt and equity that maximizes the value of the firm
- D. No financing at all

Answer: C

4. Which of the following is a limitation of the Modigliani-Miller theorem?

- A. It assumes that markets are perfect and efficient.
- B. It assumes that companies have unlimited access to capital.
- C. It assumes that the cost of equity is constant.
- D. It does not account for the tax benefits of debt financing.

Answer: D

5. Which of the following is a modification of the Modigliani-Miller theorem?

- A. The static tradeoff theory
- B. The pecking order theory
- C. The agency cost theory
- D. The efficient market hypothesis

Answer: A

6. According to the static tradeoff theory, what is the optimal level of debt for a firm?

- A. The maximum amount of debt that can be obtained
- B. The minimum amount of debt necessary to avoid bankruptcy
- C. A level of debt that balances the tax benefits and costs of financial distress
- D. No debt at all

Answer: C

7. What is the pecking order theory?

- A. A theory that states that companies prefer to use debt financing over equity financing.
- B. A theory that states that companies prefer to use equity financing over debt financing.
- C. A theory that states that companies have no preference between debt and equity financing.
- D. A theory that states that companies should use a combination of debt and equity financing to optimize their capital structure.

Answer: B

8. What is the agency cost theory?

- A. A theory that states that companies face costs associated with conflicts of interest between shareholders and management.
- B. A theory that states that companies face costs associated with bankruptcy.
- C. A theory that states that companies face costs associated with taxes.
- D. A theory that states that companies face costs associated with financial distress.

Answer: A

9. What is the role of financial leverage in determining a company's capital structure?

- A. Financial leverage is the primary determinant of a company's capital structure.
- B. Financial leverage is not a significant factor in determining a company's capital structure.
- C. Financial leverage can affect a company's cost of capital and risk profile, which in turn can influence its capital structure.
- D. Financial leverage has no effect on a company's capital structure.

Answer: C

10. What is the primary goal of a company's capital structure decisions?

- A. Maximizing profits
- B. Minimizing risk
- C. Maximizing shareholder value
- D. Minimizing the cost of capital

Answer: C