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