36 Lecture - MGT201

Important Mcqs

1. **What is the primary goal of capital structure management?**
   A) To maximize shareholder wealth
   B) To minimize the cost of capital
   C) To increase market share
   D) To decrease financial risk
   Solution: A) To maximize shareholder wealth

2. **Which of the following is a disadvantage of using debt financing?**
   A) Interest payments are tax-deductible
   B) It increases financial leverage
   C) It reduces the cost of capital
   D) It increases the value of the firm
   Solution: B) It increases financial leverage

3. **Which of the following represents the ideal capital structure for a company?**
   A) All equity financing
   B) All debt financing
   C) A mix of debt and equity financing
   D) None of the above
   Solution: C) A mix of debt and equity financing

4. **What is the primary advantage of using equity financing?**
   A) It reduces financial risk
   B) It provides tax benefits
   C) It allows for higher leverage
   D) It doesn't require repayment
   Solution: D) It doesn't require repayment

5. **What is the optimal debt-to-equity ratio for a company?**
   A) 0.5
   B) 1.0
   C) 1.5
   D) There is no universal optimal ratio
   Solution: D) There is no universal optimal ratio

6. **Which of the following is an example of external financing?**
   A) Retained earnings
   B) Issuing bonds
   C) Selling company assets
   D) All of the above
   Solution: B) Issuing bonds

7. What is the cost of capital?
   A) The total amount of money a company has available for investment

B) The amount of money a company pays for its debt and equity financing
C) The rate of return a company expects to earn on its investments
D) The amount of money a company owes its creditors
Solution: B) The amount of money a company pays for its debt and equity financing

8. **What is financial leverage?**
A) The use of borrowed funds to finance investments
B) The amount of debt a company has
C) The degree to which a company uses its assets to generate revenue
D) The ratio of a company's debt to equity
Solution: A) The use of borrowed funds to finance investments

9. **Which of the following is a factor that can affect a company's cost of debt?**
A) The company's credit rating
B) The level of competition in the market
C) The company's product offering
D) The company's stock price
Solution: A) The company's credit rating

10. **What is the primary disadvantage of using equity financing?**
A) It increases the company's financial risk
B) It results in higher interest payments
C) It dilutes existing shareholder ownership
D) It requires repayment
Solution: C) It dilutes existing shareholder ownership