

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