36 Lecture - MGT201

Important Subjective

- **What is capital structure, and why is it important for companies?**
  Answer: Capital structure refers to the way a company finances its operations through a combination of debt and equity. It is important because it impacts a company's cost of capital, financial risk, and overall financial stability.

- **What are the different types of debt financing that companies can use to fund their operations?**
  Answer: Companies can use a variety of debt financing options, including bank loans, bonds, and other types of debt securities.

- **How do companies determine their optimal capital structure?**
  Answer: Companies typically analyze a variety of factors, including their cost of capital, risk profile, and market conditions, to determine their optimal capital structure.

- **What is the role of financial leverage in capital structure management?**
  Answer: Financial leverage refers to the use of borrowed funds to finance investments. It plays a key role in capital structure management because it can impact a company's cost of capital and overall financial stability.

- **What are the advantages of using debt financing for a company?**
  Answer: Debt financing can offer lower interest rates than equity financing, and interest payments are tax-deductible, resulting in a lower cost of capital for the company.

- **What are the disadvantages of using debt financing for a company?**
  Answer: Debt financing can increase a company's financial risk, as it requires regular interest payments and eventual repayment of principal.

- **What are the advantages of using equity financing for a company?**
  Answer: Equity financing doesn't require repayment and doesn't increase a company's financial risk. It can also improve a company's credit rating and provide flexibility in funding future growth.

- **What are the disadvantages of using equity financing for a company?**
  Answer: Equity financing can dilute existing shareholder ownership and can result in higher costs of capital than debt financing.

- **How does a company's credit rating impact its cost of debt financing?**
  Answer: A company's credit rating can impact its cost of debt financing because lenders use the rating to assess the company's creditworthiness and default risk.

- **How can companies optimize their capital structure to maximize shareholder value?**
  Answer: Companies can optimize their capital structure by analyzing their cost of capital, risk profile, and market conditions and balancing the costs and benefits of different sources of funding to maximize shareholder value.