Dr.G.R.Damodaran College of Science

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CRISL rated 'A' (TN) for MBA and MIB Programmes

III BCOM ECOMMERCE [2015-2017]
Semester II
Core:FINANCIAL MANAGEMENT - 504B
Multiple Choice Questions.

1. Financial Management is mainly concerned with ______________
   A. all aspects of acquiring and utilizing financial resources for firms activities.
   B. arrangement of funds.
   C. efficient Management of every business.
   D. profit maximization
   ANSWER: A

2. In his traditional role the finance manager is responsible for ______
   A. arrange of utilization of funds
   B. arrangement of financial resources
   C. acquiring capital assets of the organization
   D. Efficient management of capital
   ANSWER: D

3. The primary goal of the financial management is _____________
   A. to maximize the return
   B. to minimize the risk
   C. to maximize the wealth of owners
   D. to maximize profit
   ANSWER: D

4. Capital budgeting is related to ______
   A. long terms assets
   B. short term assets
   C. long terms and short terms assets
   D. fixed assets
   ANSWER: A

5. Working capital management is managing ____________
   A. short term assets and liabilities
   B. .long term assets.
   C. long terms liabilities
   D. only short term assets
   ANSWER: A

6. Which few hold the shares of a public limited company it is called ________
   A. Privately owned company

B. Publicly traded company
C. Closely held company
D. Public and private company
ANSWER: A

7. Future value interest factor takes ____
A. Compounding rate
B. Discounting rate
C. Inflation rate
D. Deflation rate
ANSWER: A

8. Present value takes __________
A. Discounting rate.
B. Compounding rate.
C. Inflation rate
D. Deflation rate
ANSWER: A

9. Financial decisions involve _________
A. Financing cash decisions.
B. Investment sales decisions
C. Investment, financing and dividend decisions
D. Investment dividend decisions
ANSWER: A

10. Traditional approach confines finance function only to ____ funds
A. raising
B. mobilizing
C. utilizing
D. financing
ANSWER: A

11. The companies cost of capital is called __________
A. Leverage rate
B. Hurdle rate
C. Risk rate
D. Return rate
ANSWER: A

12. Market value of the cost of capital is decided by _________
A. the respective companies
B. the investment market
C. the government
D. share holders
ANSWER: D

13. Cost of retained earnings is equal to ________
A. Cost of equity
B. Cost of debt
C. Cost of bank loan

D. Cost of term loans
ANSWER: D

14. Beta measures the ___________
A. Investment risk rate
B. Financial risk
C. Market risk
D. Market and finance risk
ANSWER: A

15. EBIT is usually the same thing as
A. funds provided by operations.
B. earnings before taxes.
C. net income.
D. operating profit.
ANSWER: D

16. The companies average cost of capital is ______
A. the average cost of equity preference shares
B. the average cost of equity shares and debentures
C. the average cost of all sources of long term funds
D. the average cost of short term funds
ANSWER: A

17. The cost of capital of a long term debt is generally
A. Lower than the owned funds
B. Equal to that of owned funds
C. More or less than owned funds
D. Higher than that of owned funds
ANSWER: D

18. Interest on debt capital provides a ---- to the equity share holders
A. added profit
B. tax shield
C. additional financial burden
D. dividend
ANSWER: A

19. The most difficult to calculate is ______
A. the cost of preferred capital
B. the cost of equity capital
C. the cost of retained earnings
D. the cost of equity and preference capital
ANSWER: A

20. Long term sources are
A. Retained earnings
B. Debentures
C. Share capital
D. All of the above
ANSWER: D

21. When a company uses increased fixed cost for production, this is an example of what type of leverage
   A. operating leverage
   B. financial leverage
   C. variable cost leverage
   D. combined leverage
  ANSWER: A

22. When a company uses debt fund in its financial structure, it will lead to a change in
   A. Financial leverage
   B. Operating leverage
   C. Money market leverage
   D. Stock market leverage
  ANSWER: A

23. Short term sources are
   A. Bank credit
   B. Public deposit
   C. Commercial papers
   D. All of the above
  ANSWER: D

24. Fixed cost per unit ________
   A. does not change with volume of production
   B. be flexible according to the rate of interest
   C. changes according to volume of production
   D. not remains constant
  ANSWER: A

25. Variable cost in an organization
   A. be fixed according to the rate of growth
   B. changes with the volume of production
   C. does not change with volume of production
   D. remains constant
  ANSWER: A

26. Variable cost per unit
   A. varies with the level of output
   B. remains constant irrespective of the level of output
   C. changes with the growth of the firm
   D. does not change with volume of production
  ANSWER: A

27. Marketable securities are primarily_________
   A. short-term debt instruments
   B. short-term equity securities
   C. long-term debt instruments
   D. long-term equity securities
  ANSWER: A

28. The operating leverage measures ____ risk

A. Business risk
B. Operating risk
C. Financial risk
D. None of the above
ANSWER: B

29. The term_______means mathematical relationship between two figures.
A. Income.
B. Expense.
C. Profit
D. Ratio
ANSWER: D

30. Financial leverage is also known as
A. Trading on equity
B. Trading on debt
C. Interest on equity
D. Interest on debt
ANSWER: A

31. A firm will have favourable leverage if its _____ are more than the debt cost
A. debt
B. interest
C. equity
D. earnings
ANSWER: D

32. Operating leverage * financial leverage=
A. composite leverage
B. financial composite leverage
C. operating composite leverage
D. fixed leverage
ANSWER: A

33. Operating leverage = ______
A. contribution / EBIT
B. contribution / EBT
C. contribution / total expenses.
D. contribution / operating PBT
ANSWER: A

34. Cost of capital is the _____ rate of return expected by its investors
A. minimum
B. maximum
C. equal
D. higher
ANSWER: D

35. According to the traditional approach cost of capital affected by
A. debt-equity mix
B. debt-capital mix

C. equity expenses mix
D. debt-interest mix
ANSWER: D

36. The formula of EBIT = ________
A. Sales - Variable cost
B. Contribution - Fixed cost
C. Sales - Fixed cost
D. All the above
ANSWER: B

37. Shares having no face value are known as
A. no par stock
B. at par stock
C. equal stock
D. debt equity stock
ANSWER: D

38. A fixed rate of ------------------is payable on debentures
A. dividend
B. Commission
C. Interest
D. Brokerage
ANSWER: D

39. Effective cost of debentures is______________as compared to shares
A. higher
B. lower
C. equal
D. medium
ANSWER: C

40. Ownership securities are represented by _______
A. securities
B. equities
C. debt
D. debentures
ANSWER: A

41. Net working capital refers to
A. total assets minus fixed assets.
B. current assets minus current liabilities.
C. current assets minus inventories.
D. current assets.
ANSWER: B

42. ________________management is the important task of the finance manager
A. Debt
B. Equity
C. Cash
D. Profit

ANSWER: C

43. Finance function is one of the most important functions of________ management
A. business
B. marketing
C. financial.
D. debt
ANSWER: C

44. Nominal rate is the rate compounded
A. One time in 2 years
B. Twice in 2 years
C. More than once in an year
D. More than two years
ANSWER: D

45. The expansion of EAR is
A. equivalent annual rate
B. equivalent annuity rate
C. equally applied rate
D. equal advance rate
ANSWER: B

46. Traditional theorists believe that
A. there exists an optimal capital structure
B. no optimal capital structure
C. equal optimal capital structure
D. 100% debt financial organizations
ANSWER: B

47. The dividend-payout ratio is equal to
A. the dividend yield plus the capital gains yield.
B. dividends per share divided by earnings per share.
C. dividends per share divided by par value per share.
D. dividends per share divided by current price per share.
ANSWER: B

48. Altering the leverage ratio does not influence the market value of the firm. This is the basic premise of
A. net income approach
B. traditional approach
C. modern approach
D. net operating income approach.
ANSWER: D

49. Which of the following is an argument for the relevance of dividends?
A. Informational content.
B. Reduction of uncertainty.
C. Some investors' preference for current income.
D. All of the above.
ANSWER: D

50. Retained earning are
   A. an indication of a company's liquidity.
   B. the same as cash in the bank.
   C. not important when determining dividends.
   D. the cumulative earnings of the company after dividends.
 ANSWER: D

51. Arbitrage is the level processing technique introduced in
   A. Net income approach
   B. MM approach
   C. Operating approach
   D. Traditional approach
 ANSWER: A

52. In finance, "working capital" means the same thing as
   A. total assets.
   B. fixed assets.
   C. current assets.
   D. current assets minus current liabilities.
 ANSWER: C

53. In proper capital budgeting analysis we evaluate incremental
   A. accounting income.
   B. cash flow.
   C. earnings.
   D. operating profit.
 ANSWER: B

54. The probability of bankrupt is higher
   A. for a levered firm than an unlevered firm
   B. for a unlevered firm than an levered firm
   C. only levered firm
   D. only unlevered firm
 ANSWER: C

55. All of the following influence capital budgeting cash flows EXCEPT
   A. accelerated depreciation.
   B. salvage value.
   C. tax rate changes.
   D. method of project financing used.
 ANSWER: D

56. This type of risk is avoidable through proper diversification.
   A. portfolio risk.
   B. systematic risk.
   C. unsystematic risk.
   D. total risk.
 ANSWER: A

57. Capital budgeting decisions in India cannot be reversed due to
   A. leaviness of the project

B. ill organized market for second hand capital goods
C. government regulations
D. policy of the management
ANSWER: C

58. Payback period is superior to other methods, if the objective of the investor is to
A. consider cash flow in its entirety
B. consider the present value of future cash flows
C. consider the liquidity
D. consider the inflows in its entirety
ANSWER: A

59. If the pay back is a bad rule, the average returns on book value is
A. worse
B. better
C. the best
D. equal.
ANSWER: C

60. Net present value is a popular method which falls
A. With in non- discount cash flow method
B. With in discount cash flow method
C. Equal With in non- discount cash flow method
D. No discount cash flow
ANSWER: C

61. A demerit of IRR method is that it does not distinguish between
A. lending & borrowing
B. discounting & non- discounting
C. cash flow & non- cash flow
D. inflow & out flow
ANSWER: C

62. Net working capital is the excess of current asset over
A. Current liability
B. Net liability
C. Total payable
D. Total liability
ANSWER: C

63. Working capital is also known as__________ capital
A. circulating
B. fluctuating
C. fixed.
D. going
ANSWER: B

64. The gross working capital is a ______ concern concept
A. Going
B. money measurement
C. revenue concept

D. cost concept.
ANSWER: B

65. The rate of return on investment ____ with the shortage of working capital
A. falls
B. going
C. constant
D. change.
ANSWER: A

66. Greater the size of a business unit ____ will be the requirements of working capital
A. larger
B. lower.
C. no change
D. fixed
ANSWER: B

67. The fixed proportion of working capital should be generally financed from the ____ capital sources
A. fixed
B. variable
C. semi-variable.
D. borrowed.
ANSWER: D

68. The volume of sales is influenced by ____ of a firm
A. finance policy
B. credit policy
C. profit policy
D. fund policy
ANSWER: D

69. Factoring is a form of financing
A. payable
B. receivables
C. borrowings
D. debts
ANSWER: C

70. The decision function of financial management can be broken down into the_______ decisions.
A. financing and investment.
B. investment, financing, and asset management.
C. financing and dividend.
D. capital budgeting, cash management, and credit management.
ANSWER: B

71. The time required to process and execute an order is called
A. allowed time
B. lead time
C. accepted time
D. fixed time
ANSWER: D

72. The focal point of financial management in a firm is
   A. the number and types of products or services provided by the firm.
   B. the minimization of the amount of taxes paid by the firm.
   C. the creation of value for shareholders.
   D. the dollars profits earned by the firm.
 ANSWER: C

73. The policy concerning quarters of profit to be distributed as dividend is termed as
   A. Profit policy
   B. Dividend policy
   C. Credit policy
   D. Reserving policy
 ANSWER: C

74. The market price of a share of common stock is determined by
   A. the board of directors of the firm.
   B. the stock exchange on which the stock is listed.
   C. the president of the company.
   D. individuals buying and selling the stock.
 ANSWER: D

75. The long-run objective of financial management is to________
   A. maximize earnings per share.
   B. maximize the value of the firm's common stock
   C. maximize return on investment.
   D. maximize market share.
 ANSWER: B

76. A company having easy access to the capital markets can follow a________ dividend policy
   A. liberal.
   B. formal
   C. strict.
   D. Varying
 ANSWER: C

77. ________________dividend promises to pay shareholders at future date
   A. Scrip
   B. Cash
   C. Stock
   D. Property
 ANSWER: B

78. __________ is concerned with the maximization of a firm's stock price.
   A. Shareholder wealth maximization
   B. Profit maximization
   C. Stakeholder welfare maximization
   D. EPS maximization
 ANSWER: C

79. According to the ___ model, the dividend decision is irrelevant.

A. MM
B. Garden.
C. Walter.
D. XY.
ANSWER: D

80. The cash management refers to management of ___
A. cash only.
B. cash and bank balances.
C. cash and near cash assets.
D. fixed assets.
ANSWER: B

81. Miller- Orr Model is suitable in those circumstances when the_______
A. demand for cash is steady.
B. demand for cash is not steady.
C. carry cost and transaction cost are to be kept at minimum.
D. demand for cash is variable.
ANSWER: A

82. Offering cash discount to customers result is _______
A. reducing the average collection period.
B. increasing the average collection period.
C. increasing sales.
D. decreasing sales .
ANSWER: D

83. A higher accounts receivable turnover ratio means________
A. lower debt collection period.
B. higher debt collection period.
C. lower sales.
D. higher sales
ANSWER: B

84. Good inventory management is good _____ management
A. financial.
B. Marketing.
C. stock.
D. purchasing.
ANSWER: D

85. Setup cost is a type of ____ cost
A. fixed.
B. variable.
C. semi variable.
D. carrying.
ANSWER: D

86. Re-order level is ----------------than safety cash level
A. higher
B. lower

C. medium
D. fixed
ANSWER: D

87. MM approach assumes that ------------------------markets are perfect
A. Receivable
B. Capital
C. Stock
D. Exchange
ANSWER: D

88. The amount of the temporary working capital ----
A. keeps on fluctuating from time to time.
B. remains constant for all times.
C. financed through long term services .
D. financed short term sources .
ANSWER: C

89. To whom does the Treasurer most likely report?
A. Chief Financial Officer.
B. Vice President of Operations.
C. Chief Executive Officer.
D. Board of Directors.
ANSWER: A

90. The return after the pay off period is not considered in case of ----
A. Pay back period method .
B. Interest rate method.
C. Present value method.
D. Discounted cash flow method .
ANSWER: C

91. Depreciation is include in costs in case of ----
A. Pay back method.
B. Accounting rate.
C. Discounted cash flow.
D. Present value method.
ANSWER: A

92. What is the most appropriate goal of the firm?
A. Shareholder wealth maximization.
B. Profit maximization.
C. Stakeholder maximization.
D. EPS maximization.
ANSWER: A

93. ___________ is concerned with the maximization of a firm's earnings after taxes
A. Shareholder wealth maximization.
B. Profit maximization.
C. Stakeholder maximization.
D. EPS maximization

ANSWER: B

94. __________ is concerned with the acquisition, financing, and management of assets with some overall goal in mind
   A. Financial management.
   B. Profit maximization.
   C. Agency theory.
   D. Social responsibility.
 ANSWER: A

95. The bonus issue is permitted to be made out of ----------- and premium collected in cash
   A. free reserves.
   B. free interest.
   C. free bonus.
   D. free cash dividend.
 ANSWER: A

96. The bonus issue is made to make the nominal value and the ---------------- value of the shares of the company
   A. Face
   B. Market
   C. Stock
   D. Real
 ANSWER: B

97. Premium received in cash is a source of ------------------ issue
   A. Right
   B. Bonus
   C. Cash
   D.
 ANSWER: C

98. Having defined working capital as current assets, it can be further classified according to __________.
   A. Financing method and time
   B. rate of return and financing method
   C. time and rate of return
   D. components and time
 ANSWER: B

99. Dividend policy of a firm affects both the long time financing and----------------wealth
   A. Owners
   B. Creditors
   C. Debtor
   D. Shareholders
 ANSWER: C

100. ---------------------- is the distribution of the profits of a company among its shareholders
   A. Shares
   B. Interest
   C. Dividend
   D. Commission

ANSWER: C

101. The amount of current assets that varies with seasonal requirements is referred to as __________ working capital.
A. Permanent
B. Net
C. Temporary
D. Gross
ANSWER: C

102. Excess working capital results in
A. Block of cash
B. Loosing interests
C. Lack of production
D. Lack of smooth flow of production
ANSWER: A

103. The market value of the firm is the result of ----
A. dividend decisions.
B. working capital decisions.
C. capital budgeting decisions.
D. trade-off between cost and risk.
ANSWER: D

104. Insufficient working capital results in
A. Block of cash
B. Loosing interests
C. Lack of production
D. Lack of smooth flow of production
ANSWER: D

105. Effective cost of debentures is_________as compared to shares
A. higher
B. lower
C. equal
D. medium.
ANSWER: C

106. Cost of capital is the ______ rate of return expected by the investor
A. minimum
B. maximum.
C. average
D. marginal
ANSWER: B

107. ________ decision relates to the determination of total amount of assets to be held in the firm
A. Financing
B. Investment
C. Dividend
D. Controlling
ANSWER: D

108. Which of the following is a function of the finance manager?
A. Mobilizing funds.
B. Risk returns trade off.
C. Deployment of funds.
D. Control over the uses of funds.
ANSWER: D

109. Which of the following techniques of project appraisal does not consider the time value of money?
A. Benefit cost ratio.
B. Net present value
C. Internal rate of return.
D. Annual capital charge
ANSWER: C

110. Under trading means
A. Having low amount of working capital.
B. High turnover of working capital.
C. Sales are less compared to assets employed.
D. Low turnover of working capital.
ANSWER: D

111. Financial risk arises due to the
A. variability of returns due to fluctuations in the securities market.
B. changes in prevailing interest rates in the market.
C. leverage used by the company.
D. liquidity of the assets of the company.
ANSWER: D

112. The risk that arises due to change in the purchasing power is called
A. Financial risk.
B. Interest rate risk.
C. Business risk.
D. Inflation risk.
ANSWER: D

113. The factor(s) which affect(s) P/E ratio is/are ----
A. Growth rate
B. Debt proportion
C. Retention ratio
D. All of the above.
ANSWER: D

114. Long -term solvency is indicated by
A. Liquidity ratio
B. Debt-equity ratio
C. Return coverage ratio
D. Both a and b
ANSWER: B

115. Which of the following is/are the problem(s) encountered in financial statement analysis?

A. Development of benchmarks.
B. Window dressing.
C. Interpretation of results.
D. All of the above.
ANSWER: D

116. Earnings Per Share (EPS) is equal to ----
A. Profit before tax/No. of outstanding shares.
B. Profit after tax/No. of outstanding shares.
C. Profit after tax/Amount of equity share capital.
D. Profit after tax less equity dividends/No. of outstanding shares.
ANSWER: B

117. Degree of total leverage can be applied in measuring change in
A. EBIT to a percentage change in quantity.
B. EPS to a percentage change in EBIT.
C. EPS to a percentage change in quantity.
D. Quantity to a percentage change in EBIT.
ANSWER: C

118. The measure of business risk is
A. operating leverage.
B. financial leverage.
C. total leverage.
D. working capital leverage.
ANSWER: A

119. The value of EBIT at which EPS is equal to zero is known as
A. Break even point.
B. Financial break even point.
C. Operating break even point.
D. Overall break even point.
ANSWER: B

120. Degree of financial leverage is a measure of relationship between
A. EPS and EBIT.
B. EBIT and quantity produced.
C. EPS and quantity produced.
D. EPS and sales.
ANSWER: A

121. Operating leverage examines
A. The effect of the change in the quantity on EBIT.
B. The effect of the change in EBIT on the EPS of the company.
C. The effect of the change in output to the EPS of the company.
D. The effect of change in EPS on the output of the company.
ANSWER: A

122. Which of the following is the expression for operating leverage?
A. Contribution/EBIT.
B. EBT/Contribution.

C. Contribution/EAT.
D. Contribution/Quantity.
ANSWER: A

123. Operating Leverage is the response of changes in ----
A. EBIT to the changes in sales.
B. EPS to the changes in EBIT.
C. Production to the changes in sales.
D. None of the above.
ANSWER: A

124. Walters model on dividend policy assumes that
A. the firm offers an increasing amount of dividend per share at a given level of price per share.
B. the firm has a finite life.
C. the cost of capital of the firm is variable.
D. equal to current assets plus current liabilities including bank borrowings.
ANSWER: D

125. The use of preference share capital as against debt finance
A. Reduces DFL.
B. Increases DFL.
C. Increases financial risk.
D. Both a and b.
ANSWER: B

126. The Degree of Financial Leverage (DFL)
A. Measures financial risk of the firm.
B. Is zero at financial break even point.
C. Increases as EBIT increases.
D. Both a and b.
ANSWER: A

127. Dividend changes are perceived important than the absolute level of dividends because
A. management change dividends to protect their seats.
B. dividend changes have signal value for future.
C. MM state that absolute level of dividends is irrelevant.
D. changes determine the level of borrowing.
ANSWER: C

128. Which of the following is the assumption of the MM model on dividend policy?
A. The firm is an all-equity firm.
B. The investments of the firm are financed solely by retained earnings.
C. The firm has an infinite life.
D. None of the above.
ANSWER: C

129. Which one of the following is not a source of long-term finance?
A. Equity capital.
B. Preference capital.
C. Commercial paper.
D. Term loan.

ANSWER: D

130. Which of the following methods does a firm resort to avoid dividend payments?
   A. Share splitting.
   B. Declaring bonus shares.
   C. Rights issue.
   D. New issue.
 ANSWER: B

131. Which of the following characteristics are true, with reference to preference capital?
   A. Preference dividend is tax deductible.
   B. The claim of preference shareholders is prior to the claim of equity shareholders.
   C. Preference share holders are not the owners of the concern.
   D. All of the above
 ANSWER: D

132. What are the factors which make debentures attractive to investors?
   A. They enjoy a high order of priority in the event of liquidation.
   B. Stable rate of return.
   C. No risk.
   D. All of the above.
 ANSWER: D

133. The method of raising equity capital from existing members by offering securities on pro rata basis is referred to as
   A. Public issue.
   B. Bonus issue.
   C. Private placement.
   D. Bought-Out-Deal.
 ANSWER: B

134. Which of the following is not a source of long-term finance?
   A. Equity shares.
   B. Preference shares.
   C. Commercial papers.
   D. Reserves and surplus.
 ANSWER: D

135. EBIT means
   A. Operating Income
   B. Operating Profit
   C. Earnings before interest and tax
   D. All of the above
 ANSWER: D

136. Which of the following factors influence(s) the capital structure of a business entity?
   A. Bargaining power with the suppliers
   B. Demand for the product of the company.
   C. Technology adopted.
   D. Adequate of the assets to meet any sudden spurt in demand.
 ANSWER: C

137. Which of the following ratios is not affected by the financial structure and the tax rate of a company?
   A. Net profit margin.
   B. Earning power.
   C. Earnings per share.
   D. Capitalization rate.
 ANSWER: C

138. A company may rise capital from the primary market through
   A. Public issue.
   B. Rights issue.
   C. Bought out deals.
   D. All of the above
 ANSWER: D

139. Under which of the following approaches cost of equity capital is assumed to be constant with the change in leverage?
   A. Net income approach.
   B. Modigliani and Miller approach.
   C. Net operating income approach
   D. Traditional approach.
 ANSWER: A

140. Which of the following approaches advocates that the costs of equity capital and debt capital remain unaltered when the degree of leverage varies?
   A. Net Income Approach
   B. Traditional Approach.
   C. Modigliani-Miller Approach.
   D. Net operating Income.
 ANSWER: A

141. Cost of retained earnings is equal to
   A. Cost of equity to be issued.
   B. Cost of internal equity.
   C. Rate of dividend expected to be declared.
   D. Present rate of dividend declared.
 ANSWER: B

142. While calculating weighted average cost of capital
   A. Preference shares are given more weight age.
   B. Cost of issue is considered.
   C. Tax factor is ignored.
   D. Risk factor is ignored
 ANSWER: B

143. Cost of equity capital
   A. Is lesser than the cost of debt capital.
   B. Is equal to the dividend rate expectations of equity shareholders for the coming year.
   C. Is equal to the dividend rate declared on equity shares.
   D. Is equal to the return earned on equity capital.
 ANSWER: C

144. Which, among the following, are common misconceptions about cost of capital?
   A. Depreciation-generated funds have no cost.
   B. Cost of capital is low if a project is heavily debt-financed.
   C. Cost of equity is equal to the dividend rate.
   D. All of the above.
 ANSWER: D

145. Which of the following is not a feature of an optimal capital structure?
   A. Safety
   B. Flexibility
   C. Control
   D. Solvency
 ANSWER: B

146. The overall capitalization rate and the cost of debt remain constant for all degrees of leverage. This is pronounced by
   A. Traditional approach
   B. Net operating income approach
   C. Net income approach
   D. MM approach
 ANSWER: C

147. While calculating weighted average cost of capital
   A. Retained earnings are excluded.
   B. Cost of issues are included.
   C. Weights are based on market value or on book value.
   D. Equity shares are given more weights.
 ANSWER: D

148. Which of the following is not an assumption in the Miller & Modigliani approach?
   A. There are no transaction costs.
   B. Securities are infinitely divisible.
   C. Investors have homogeneous expectations.
   D. All the firms pay tax on their income at the same rate.
 ANSWER: D

149. Which of the following is not an assumption in Miller and Modigliani approach?
   A. There are no corporate or personal income tax.
   B. Investors are assumed to be rational and behave accordingly.
   C. There is no corporate tax though there are personal income tax.
   D. Capital markets are perfect .
 ANSWER: D

150. Which of the following is / are assumption behind the realized yield approach?
   A. The yield earned by investors has been, on average, in conformity with their expectations.
   B. The dividends will continue growing at a constant rate forever.
   C. The market price will continue growing at a constant rate forever.
   D. Both a and b.
 ANSWER: D

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