
FINANCIAL MANAGEMENT

THIRD SEMESTER M.COM ELECTIVE :MC3E(F)01

Multiple Choice Questions

1. Profit maximization when:
 - a. Cost is minimized
 - b. revenue is maximized
 - c. marginal revenue = marginal cost
 - d. None of these.
2. Net working capital means:
 - a. Current asset+current liability
 - b. current asset-current liability
 - c. current asset only
 - d. none of these
3. The longer the operating cycle:
 - a. The larger the size of current assets
 - b. the smaller the size of current asset.
 - c. current asset remain the same
 - d. none of the above.
4. Which of the following is not the principle of working capital management
 - a. Risk variation
 - b. cost of capital
 - c. maturity of payment
 - d. conservatism
5. Capital structure is optimal when :
 - a. WACC tends to decline
 - b. WACC is the lowest
 - c. cash is sufficient to meet debt
 - d. none of these
6. Capital structure can be classified according to :
 - a. Nature and sources
 - b. ownership and creditorship
 - c. cost behavior
 - d. all of these
7. MM theory suggests that changing leverage ratio does not influence the value of firm because of :
 - a. The arbitrage process
 - b. no change in the WACC
 - c. both of the above
 - d. none of the above
8. Cost of preference share is:
 - a. Treated for taxes
 - b. not treated for taxes
 - c. only occasionally treated for taxes
 - d. none of these
9. Cost of equity share is influenced by:
 - a. Growth rate of dividend only
 - b. growth rate of earnings only.
 - c. both of the above
 - d. none of these
10. Cost of new debt incorporates:
 - a. Floatation cost
 - b. no floatation cost
 - c. only a part of floatation
 - d. none of these

11. MM theory suggests that dividend payment:
 - a. has a positive impact on the value of firm
 - b. has a negative impact on the value of a firm
 - c. has no impact on the value of firm.
 - d. none of these
12. Residual theory of dividend is applicable only when:
 - a. The cost of retained earnings lower than the cost of debt
 - b. the cost of retained earnings is higher than the cost of debt
 - c. the cost of retained earnings is equal to the cost of debt.
13. In _____ approach, the capital structure decision is relevant to the valuation of the firm.
 - a. Net income
 - b. Net operating income
 - c. Traditional
 - d. Miller and Modigliani
14. A critical assumption of the net operating income (NOI) approach to valuation is:
 - a. that debt and equity levels remain unchanged.
 - b. that dividends increase at a constant rate.
 - c. that k_0 remains constant regardless of changes in leverage.
 - d. that interest expense and taxes are included in the calculation.
15. 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 KEY

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
c	b	e	d	b	d	c	b	c	a	c	b	a	c	a

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