

THINK CRITICALLY

Handwrite your responses in the space below; 2 sentences each.

1. What are the steps of the capital budgeting process?

 2. Why is the cost of debt lower than the cost of equity?

 3. According to financial theory, the major goal of a business organization should be _____.
 - a. higher sales
 - b. lower customer complaints
 - c. a high market value
 - d. a low level of debt

 4. True or False? _____ Projects with a higher risk will usually be evaluated with a lower cost of capital.

 5. A common benefit of debt is
 - a. lower risk than equity
 - b. interest payments reduce the amount of taxes
 - c. stockholders may not receive their dividends
 - d. reduced chance of company bankruptcy

 6. True or False? _____ If a company has no debt, its WACC would be the same as its cost of equity.

 7. The cost of capital is most influenced by _____.
 - a. the required return of lenders and owners
 - b. the corporate tax rate
 - c. government actions to reduce pollution
 - d. competition from foreign companies

 8. Which will be the lowest for a company? _____.
 - a. cost of debt
 - b. cost of equity
 - c. WACC
 - d. cost of invested funds
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TEAMWORK

Discuss in pairs or small groups and then write your conclusions below.

9. In your team, discuss which step in the capital budgeting process you think would be the most challenging. Give reasons for your answers.