

QUIZ FINANCIAL LEVERAGE

1. What is the concept of leverage in business finance?
- a) A The use of debt to reduce risk.
 - b) B The use of variable costs to increase profits.
 - c) C The use of equity to maximize profits.
 - d) **D** The use of fixed costs to magnify returns at high levels of operation.

2. When does leverage work best according to the reference text?
- a) When volume is decreasing.
 - b) When costs are decreasing.
 - c) When volume is increasing.
 - d) When profits are stable.

3. The effect of financial leverage depends on a company's EBIT.

- 1 True
- 2 False

4. Because investors can use homemade leverage to create any level of financial leverage they desire,
the capital structure of a firm does not matter

- 1 True
- 2 False

