

Assignment-10.

1) AS the amount of debt increase the cost of capital decreases - True or False - Give reasons.

False.

AS the amount of debt increase, the cost of capital decrease is saying.

* When a company takes on a moderate level of debt, the cost of debt (interest rate) is typically lower than the cost of equity because debt holders take on less risk than equity because debt is less in the capital structure. Thus adding a reasonable amount of debt can reduce the weighted average cost of capital (WACC) as debt is cheaper than equity.

When a Debt provides a tax since interest payments are tax deductible. AS debt increases the overall cost of capital might decrease.

There is an optimal level of debt that minimizes the WACC. Beyond this point, as the firm takes on more debt.

The moderate level of debt can reduce the cost of capital due cheaper debt and the benefits beyond a certain threshold. Increased debt ratio the overall cost of capital to higher financial risk and equity cost of a both debt and equity.