Assignment-12.

1) why does EBIT Fall as the Firm takes more debt?

EBIT (Earings Before Interest and Taxes) should not directly Fall as a Firm takes on more debt. In fact, EBIT is measure of a firms operating Income and does not Include the cost of debt (Interest expenses)

EBIT represents a firm's operating Income before taking into account Interest and taxes

When a firm takes on more debt it needs Financial Obligations in the form of Interest payments.

These Interest payment don't directly reduce EBIT, as EBIT is measured before Interest but There are Indirect effects.

Taking on more debt increases Financial risk as but it may also affect operating risk Indirectly

When a company Company borrow heavily its management may become more risk-avero in business operations

EBIT is measured before Interest heavy about can Indirectly affect a firm's operating efficiency, risk management, and long-term profitability to a potental decline in EBIT.