**11th WEEK ASSIGNMENT**

1 Answer true or false to the following questions relating to the free cash flow hypothesis.

a. Companies with high operating earnings have high free cash flows.

b. Companies with large capital expenditures, relative to earnings, have low free cash flows.

c. Companies that commit to paying a large portion of their free cash flow as dividends do not need debt to add discipline.

d. The free cash flow hypothesis for borrowing money makes more sense for firms in which there is a separation of ownership and management.

e. Firms with high free cash flows are inefficiently run.

2 Identify the factors that the managers consider in deciding on how much debt to carry.

**ACTIVITIES**

Agency costs arise from the conflict between stockholders and bondholders, but they do not impose any real costs on firms. Identify.