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CA FOUNDATION

Assignment

Business Economics

Theory of Production and Cost

1. _____ Shows the overall output generated at a given level of input:

(a) Cost function

(b) Production function

(c) ISO cost

(d) Marginal rate of technical

2. The marginal product curve is above the average product curve when the average product is:

(a) Increasing

(b) Decreasing

(c) Constant

(d) None

3. Increasing returns to scale can be explained in terms of:

(a) External and internal economies

(b) External and internal dis economies

(c) External economics and internal dis economies

(d) All of these

4. An isoquant is ____ to an ISO cost line at equilibrium point:

(a) Convex

(b) Concave

(c) Tangent

(d) Perpendicular

5. _____ is the functional relationship between physical inputs (i.e. factors for production), and physical outputs (i.e. quantity of goods / services produced)

(a) Input-Output Function

(b) Demand-Supply Function

(c) Production Function

(d) Cost Function

6. Production Function specifies the _____ output that can be produced with given quantities of inputs, in the existing state of technology.

(a) Minimum

(b) Maximum

(c) Average

(d) Zero

7. _____ shows the overall output generated at a given level in input.

(a) Cost Function

(b) Production Function

(c) Marginal Rate of Substitution

(d) Isocost and Isoquants

8. Increase in all input leading to less than proportional increase in output is called

(a) Increasing returns to scale

(b) Decreasing returns to scale

(c) Constant return to scale

(d) Both increasing and decreasing return to scale

9. Consider the following combination inputs and outputs:

This production technology satisfies

Labour	**Capital**	**Output**

5	10	1
6	12	2
7	14	3
8	16	4
9	18	5
10	20	6

(a) Increasing return to scale

(b) Decreasing returns to scale

(c) Constant returns to scale

(d) Both increasing and decreasing return to scale

10. Consider the following table:

Labour	**Total Output**	**Marginal Product**
5	10	1
6	12	2
7	14	3
8	16	4
9	18	5
10	20	6

What is the total output, when 2 labour are employed?

(a) 80

(b) 100

(c) 180

(d) 200

11. Who has given the concept of Innovative Entrepreneurship?

(a) Robbins

(b) Adam Smith

(c) Schumpeter

(d) Sweezy

12. If a firm's output is zero, then:

(a) AFC will be positive

(b) AVC will be zero

(c) Both of (a) and (b)

(d) None of (a) and (b)

13. In the long run, the quantity of factors of production

(a) Remains constant

(b) Changes

(c) Is zero

(d) Is infinity

14. If a firm's output is zero, then:

(a) AFC will be positive

(b) AVC will be zero

(c) Both of (a) and (b)

(d) None of (a) and (b)

15. Labour force wants more

(a) Facility

(b) Leisure

(c) Benefit

(d) All of the above

16. Increasing returns to scale occurs due to

(a) Economies of scale

(b) Specialization

(c) Indivisibility of factors

(d) All of these

17. The concepts of Returns to Scale is related with:

(a) Very short period

(b) Short period

(c) Long period

(d) None of above

18. A production function is defined as the relationship between _____ .

(a) They quantity of physical inputs and physical output of a firm

(b) Stock of inputs and stock of output

(c) Prices of inputs and output

(d) Price and supply of a firm

19. If a change in scale inputs leads to a proportional change in the output, it is a case of –

(a) Increasing Returns to Scale.

(b) Constant Returns to Scale.

(c) Diminishing Return to Scale.

(d) Variable Returns to Scale

20. The conclusion drawn from Cobb-Douglas production function is that labour contributed about about ____ and capital about ____ of the increase in the manufacturing production

(a)

(b)

(c)

(d) None of the above

21. ISO quants are also known as:

(a) Production possibility curves

(b) Indifference curves

(c) Production indifference curves

(d) None of the above

22. In Economics, entire process of _____ is nothing but creation of utilities in the form of goods and services

(a) Consumption

(b) Production

(c) Exchange

(d) Distribution

23. At the point of inflexion, the marginal product is:

(a) Increasing

(b) Decreasing

(c) Maximum

(d) Negative

24. According to Cobb-Douglas production function, we get _____ returns to scaler?

(a) Constant

(b) Diminishing

(c) Increasing

(d) Any of the above

25. Which of the following statement is True? Production can be defined as –

(a) Creation or addition of utility

(b) Conversion of raw material into finished goods

(c) An activity of making something immaterial

(d) All of these

26. Hawking of Fruits and Vegetables by a Street Vendor is an example of Production Activity. This statement is –

(a) True

(b) False

(c) Partially True

(d) None of the above

27. Work of a Professional (like Charted Accountant) does not result in any tangible output. Hence, it is not a Production Activity in Economics. This statement is –

(a) True

(b) False

(c) Partially True

(d) None of the above

28. _____ Utility refers to changing the place of the resources, from place of lesser use to place of greater use.

(a) Form Utility

(b) Place Utility

(c) Time Utility

(d) Personal Utility

29. _____ Utility is created by making goods and services available at times when they are not normally available.

(a) Form Utility

(b) Place Utility

(c) Time Utility

(d) Personal Utility

30. The demand for a Factor of Production is said to be a Derived Demand because –

(a) It is a function of the probability of an enterprise

(b) It depends on the supply of complementary factors

(c) Its stems from the demand for the final product.

(d) It arises out of means being a scarce in relation to wants.

31. Which of the following is not a characteristic of Land?

(a) Its supply for the economy is limited

(b) It is immobile

(c) Its usefulness depends on human efforts

(d) It is produced by our forefathers

32. Which of these constitute "Labour"?

(a) Singing in the company of friends for the sake of pleasure

(b) Singing against payment of a fee

(c) Singing while walking on the road

(d) None of the above

33. A line joining tangency points of Isoquants and Isocost is called

(a) Expansion Path

(b) Contraction Path

(c) Constant Path

(d) None of the above

34. As a Factor of Production, 'Capital' can be used for –

(a) Further production of wealth

(b) Yielding further income

(c) Both (a) and (b)

(d) Neither (a) nor (b)

35. If a Resource is being used for generating further revenue, it will constitute-

(a) Wealth

(b) Capital

(c) Both (a) and (b)

(d) Neither (a) nor (b)

36. Entrepreneur is also called as –

(a) Organizer

(b) Manager

(c) Risk – Taker

(d) All of the above

37. As a Factor of Production, "Capital" is a _____ concept.

(a) Stock

(b) Flow

(c) Both (a) and (b)

(d) Neither (a) and (b)

38. The process of increase in the stock of real capital in a country is called –

(a) Stock Increase

(b) Capital Formation

(c) Increase in GDP

(d) Resource Allocation

39. Larger production of goods would lead to higher production in future.

(a) Consumer goods

(b) Capital goods

(c) Agricultural Goods

(d) Public Goods

40. Organic Objective of Enterprises –

(a) Survival

(b) Growth and Expansion

(c) Both (a) and (b)

(d) Either (a) or (b)

41. Economic Profit is also called –

(a) Pure Profit

(b) Super Normal Profits

(c) Abnormal Profits

(d) All of the above

42. The difference between Economist's Profit and Accountant's Profit is

(a) Consideration of Direction Cost

(b) Consideration of depreciation

(c) Consideration of Opportunity Cost

(d) There is no difference

43. The time period (s) covered in Economics Study is / are –

(a) Short – run

(b) Long – run

(c) Both (a) and (b)

(d) Neither (a) nor (b)

44. There is only one Fixed Factor of Production in the short – run planning horizontal. This statement is –

(a) True

(b) False

(c) Partially True

(d) None of the above

45. In the short – run, _____ factor(s) of production is / are variable.

(a) All

(b) None

(c) One

(d) All of the above

46. The difference between fixed and Variable Factors of Production arises only in –

(a) Medium – run

(b) Short – run

(c) Long – run

(d) None of the above

47. The introduction of new production with added features in the market is known as –

(a) Process Innovation

(b) Production innovation

(c) Plant Innovation

(d) Production Function

48. The law of ____ deals with input – output relation when the output is increased by varying the quantity of one input.

(a) Variable Proportions

(b) Supply

(c) Demand

(d) Returns to Scale

49. Which law examines the production function keeping one factor variable?

(a) Law of Returns to Scale

(b) Law of Increasing Returns to scale

(c) Law of variable Proportions

(d) Law of Diminishing Marginal Utility

50. _____ is the addition made to Total Product, by an additional unit of input of the Variable Factor.

(a) Total Product

(b) Average Product

(c) Marginal Product

(d) All of the above

51. What is the maximum point of TP?

(a) When AP becomes zero

(b) When MP becomes zero

(c) At the intersecting point of AP & MP

(d) None of these

52. At the Point of Inflexion –

(a) Total Product is Maximum

(b) Average Product is Maximum

(c) Marginal product is Maximum

(d) All of the above

53. When is Average Product at its maximum?

(a) When AP intersects MP

(b) When AP intersects TP

(c) At the Point of Inflexion

(d) All of the above

54. _____ states that when Labour increases with capital being the same, the Marginal Productivity of Labour will increase at first but start decreasing later.

(a) Law of Equi – Marginal Returns

(b) Law of Diminishing Marginal Utility

(c) Law of Variable Proportions

(d) Law of Constant Returns

55. In the stage of Diminishing Return –

(a) MP increases by AP decreases

(b) MP decreases by AP increases

(c) MP and AP show increasing trend

(d) MP and AP show decreasing trend

56. Under the Law of Return to Scale, _____ is constant.

(a) Output Quantities

(b) Quantities of Variable Factors of Production

(c) Quantities of Variable and Fixed Factors of Production

(d) Proportion between different Factors of Production

57. Change in Scale means that all Factors of Production are increased or decreased –

(a) In different proportions

(b) In the same proportion

(c) To infinity

(d) None of the above

58. _____ shows the various alternative combinations of two Factor Inputs, which a Firm can buy with given amount of money.

(a) Isocost Lines

(b) Isoproduct Lines

(c) Isoprice Lines

(d) Isoquant Lines

59. Marginal product, mathematically, is the slope of the –

(a) Total product curve

(b) Average product curve

(c) Marginal product curve

(d) Implicit product curve

60. Laws of production does not include _____.

(a) Returns to scale

(b) Law of diminishing returns to a factor

(c) Law of variable proportions combination of factors

(d) Least cost combination of factors

61. Generally, Supply of Labour and Wage Rates are directly related. However, at very high wage rates, there is a paradox of reduction in labour. This paradox is attributed to –

(a) Preference to earn more money

(b) Preference to have more of rest and leisure

(c) Preference to restrict Supply

(d) None of the above

62. Which of the following statements is not true about Labour Economics?

(a) Large Scale of Production enables the division of labour

(b) Division of Labour is not profitable at small scale of production

(c) Division of Labour results in improving worker's skills

(d) Division of Labour is imposable in Firms with large scale production

63. As a Factor of Production, the Supply of Land is ____ from the viewpoint of the entire economy.

(a) Perfectly elastic

(b) More elastic

(c) Less elastic

(d) Perfectly inelastic

64. If Mangoes from Andhra Pradesh are available for Sale in Delhi, it refers to creation of –

(a) Form Utility

(b) Place Utility

(c) Time Utility

(d) Personal Utility

65. All Wealth is Capital, but all Capital is not Wealth. This statement is –

(a) True

(b) False

(c) Partially True

(d) None of the above

66. A Firm's Production Function –

(a) Shows how much output and the level of input required for the firm to maximize profits.

(b) Establishes the minimum level of output that can be produced using the available resources.

(c) Show the maximum output that can be produced with a given amount of inputs with available

(d) Show labour force which is employed

67. Which of the following activities cannot take place in the short – run?

(a) Changing the quantity of labour employed

(b) Changing the input combination

(c) Regular maintenance of the Plant to ensure efficient production

(d) Installation of an Additional Plant to meet future requirements

68. In describing a given technology, the short run is best described as lasting –

(a) Up to six months from now

(b) Up to five years from now

(c) As long as all inputs are fixed

(d) As long as at least one input is fixed

69. Which of the following is / are an outcome of a technological changes?

(a) A downward shift in the production function

(b) Same output with fewer inputs or more output with same inputs

(c) Invention of a product or production process

(d) Both (b) and (c) above

70. Which of the following statements regarding Production Function is false?

(a) It just shows the relationship between output and input

(b) It does not provide my information on the least – cost Capital Labour combination

(c) It reveals the output that yields the maximum profit

(d) Both (a) and (c)

71. As a Factor of Production, the Elasticity of Supply of Land from the viewpoint of the entire economy is –

(a) Infinite

(b) Zero

(c) Positive

(d) Negative

72. The point of tangency between any Isoquant and an Isocost Line gives the

(a) Highest-cost combination of inputs and maximum level of output that can be produced

(b) Lowest-cost combination of an inputs and minimum level of output that can be produced

(c) Lowest-cost combination of an inputs and maximum level of output that can be produced

(d) Highest-cost combination of inputs and minimum level of output that can be produced

73. Since there is no Reserve Price, Labour has –

(a) Weak bargaining power

(b) Strong bargaining power

(c) No bargaining power

(d) Infinite bargaining power

74. If a Worker terminates his employment with Company ABC, he –

(a) Can get employed in another Company

(b) Cannot get employed in any Company at all

(c) Becomes the Owner of Company ABC

(d) Will not get any wages at all

75. Capital Formation is required for –

(a) Replacement and renovation of existing machinery and equipment

(b) Creating additional productive capacity

(c) Both (a) and (b)

(d) Neither (a) nor (b)

76. If Current consumption is reduced for the purpose of Capital Formation, that represents a

(a) Uneconomic activity

(b) Current sacrifice for future growth

(c) Decrease in demand

(d) Decrease in resources

77. Which of the following is a National Objective of an enterprise?

(a) To remove inequality of opportunities and provide fair opportunity to all to work and to progress

(b) To make the job contents interesting and challenging

(c) To avoid profiteering and anti-social practices

(d) To maximize profits

78. For the purpose of Capital Formation, which f the following create maximum "Savings" in an economy?

(a) Individuals of Households

(b) Business Enterprises

(c) Government

(d) None of the above

79. Ability to Save depends upon –

(a) Average level of income

(b) Distribution of national income

(c) Both (a) and (b)

(d) Neither (a) nor (b)

80. If the whole of the current capacity is used to produce only Consumer Goods –

(a) Production of Consumer Goods in the future will be affected

(b) Economy cannot grow in future

(c) Production Possibility Curve (PPC) cannot shift outside

(d) All the above

81. Real Capital Formation requires –

(a) An entrepreneurial class which is prepared to bear the risk of business

(b) Economic and industrial policies in which investment is given initiative

(c) AN inducement to invest, e.g. prospective rate of profit

(d) All of the above

82. Prospective Rate of profit is also called –

(a) Rate of interest on Bank Deposits

(b) Marginal Efficiency of Capital

(c) Marginal Utility of Capital Employed

(d) Marginal Revenue

83. Scheme of Subsidies for setting up industries in backward regions leads to –

(a) Balanced regional Development

(b) Socially – Beneficial Capital Formation

(c) Both (a) and (b)

(d) Neither (a) nor (b)

84. Which of the following constitute innovation?

(a) Introducing of a new or improved product

(b) Utilisation of new or improved source of Raw Material

(c) Introduction of new or improved production methods / machinery

(d) All of the above

85. Higher the level of income, Higher is the level of Savings. This statement is true in respect of

(a) Individual House holds only

(b) Overall Economy

(c) Both (a) and (b)

(d) Neither (a) nor (b)

86. If the marginal product of labour is below the average product of labour, it must be true that:

(a) Marginal product of labour is negative

(b) Marginal product of labour is zero

(c) Average product of labour is falling

(d) Average product of labour is negative

87. When output decreases by 40% due to increase in inputs by 40%, this stage is called the law of

(a) Increasing return to scale

(b) Decreasing return to scale

(c) Constant returns to scale

(d) None of the above

88. Which of the following statements regarding services Industry is true?

(a) Services Industry uses less Capital Equipment

(b) Services Industry uses more Capital

(c) Services Industry uses no Capital Equipment

(d) Services Industry uses less Variable Factors

89. Production does not consist of which of the following activities?

(a) Changing the form of natural resources

(b) Changing the place of the natural resources

(c) Both of the above

(d) None of the above

90. When 60 hours of Labour are spent are spent, total output quantity is 3,000 units. When 75 hours of Labour are spent, total output quantity is 4,500 units. Here, Marginal Product will be –

(a) 2,250

(b) 2,000

(c) 250

(d) 100

91. To economists, the main difference between the short run and long run is that –

(a) In the short run all inputs are fixed, in the long run all input are variable

(b) In the short run the Firm varies all of its inputs to find the least-cost combination of inputs

(c) If the short run, at least one of the Firm's input levels is fixed

(d) In the long run, the Firm is making a constrained decision about how to use existing plant and equipment efficiently

92. Which of the following statements regarding Product and Process Innovation is true?

(a) It is difficult to quantify product innovation, as compared to process innovation

(b) It is difficult to quantify process innovation, as compared to product innovation

(c) Neither of the innovation types can quantified

(d) Quantifying both the innovation types is equally easy / difficult

93. What will be the total product when two labourers are hired according to the table given below?

No. of Products	**Total Product**	**Marginal Product**
0	-	-
1	450	450
2	-	330

(a) 680

(b) 580

(c) 880

(d) 830

94. With a view to increase his production, Sairam, a manufacturer of watches, increases all the factors of Production in his unit by 150% But at the end of the year, he finds that instead of an increase of 150%, his production has increased by only 100%. Which law of returns to scale is operating in this case?

(a) Increasing returns to scale

(b) Decreasing return to scale

(c) Constant returns to scale

(d) None of the above

95. Linear homogeneous production function is based on:

(a) Increasing returns to scale

(b) Decreasing returns to scale

(c) Constant returns to scale

(d) None of the above

96. Which of the following statement is true in relation to an ISO – Quant Curve?

(a) It represents the combinations of two factors of production that will give the same level of output

(b) It represents the combinations of all the factors that will give the same level of output

(c) It slopes upward to the sight

(d) It can touch either exist

97. When average product rises as a result of an increase in the quantity of variable factor, marginal product is:

(a) Equal to average product

(b) More than average product

(c) Less than average product

(d) Becomes negative

98. Suppose the first four units of a variable input generate corresponding total output of 150, 200, 350, 550 what will be the marginal product of the third unit of input?

(a) 50

(b) 100

(c) 150

(d) 200

99. Cobb Douglas function is given by $Q = KL^aC^b$

(a) If $\alpha + \beta > 1$, increasing returns

(b) If $\alpha + \beta > 1$, increasing returns to scale

(c) If $\alpha + \beta < 1$, diminishing returns

(d) If $\alpha + \beta = 1$, decreasing returns to scale.

100. Marginal average and total product of a firm in the short run will not comprise:

(a) When marginal product is at a maximum, average product is equal to marginal product, and total product is rising

(b) When average product is maximum, average product is equal to marginal product, and total product is rising

(c) When marginal product is negative, total product and average product are falling

(d) When total product is increasing, average product and marginal product may be either rising or falling.

101. The Marginal Product of variable input is best described as –

(a) Total product divided by the number of units of variable input

(b) The additional output resulting from a one unit increase in the variable

(c) The additional output resulting from a one unit increase in both the variable and fixed input.

(d) The ratio of the amount of the variable input that is being used to the amount of the fixed input that is being used

Let TP = Total Product, AP = Average Product and MP = Marginal Product. Use the follow - ing table and answer the next 10 Questions.

Quantity of Variable Factor	TP (in units)	AP (in units)	MP (in units)
1	2,000	P	Q

2	R	S	1200
3	T	1400	U
4	4,200	V	W
5	X	800	Y

102. Find the value of "P" in the above Table.

(a) 1,000

(b) 2,000

(c) 3,000

(d) 0

103. Find the value of "Q" in the above Table.

(a) 1,000

(b) 2,000

(c) 3,000

(d) 0

104. Find the value "R" in the above Table.

(a) 2,000

(b) 2,300

(c) 3,200

(d) 2,900

105. Find the value of "S" in the above Table.

(a) 2,000

(b) 1,600

(c) 1,200

(d) 800

106. Find the value of "T" in the above Table.

(a) 4,200

(b) 3,200

(c) 3,400

(d) 3,100

107. Find the Value of "U" in the above Table.

(a) 900

(b) 1,200

(c) 1,000

(d) 800

108. Find the value of "V" in the above Table.

(a) 1,000

(b) 1,100

(c) 1,200

(d) 1,050

109. Find the value of "W" in the above Table.

(a) Nil

(b) 2,000

(c) 4,000

(d) Cannot be calculated

110. Find the value of "Y" in the above Table.

(a) Nil

(b) 2,000

(c) 4,000

(d) Cannot be calculated

111. Find the value of "Y" in the above Table.

(a) Nil

(b) -200

(c) +200

(d) Cannot be calculated

112. If total Product = 50,000 units when 10,000 hours of Labour are used, then Average Product

(a) 50,000

(b) 20,000

(c) 5

(d) 40,000

113. Marginal Product (MP) –

(a) Will have positive values only

(b) Will have negative values only

(c) Can be positive or zero or even negative

(d) Can be positive or zero, but not negative

114. If Marginal Product (MP) Curve is depicted on graph with Quantity on X axis –

(a) MP will not go below the X axis

(b) MP may go below the X axis

(c) MP cannot be depicted on the graph at all

(d) None of the above

115. What is the relationship between AP and MP?

(a) AP and MP both rise first and thereafter fall

(b) MP Curves always lies half-way between AR Curve of Origin

(c) AP and MP both can be zero or negative

(d) All of these

116. The average Product of Labour is maximized when Marginal Product of Labour –

(a) Equal the Average Product of Labour

(b) Equals zero

(c) Is maximized

(d) None of the above

117. Which of the following is correct?

(a) If Marginal product is positive and falling, Total Product will rise at a decreasing rate.

(b) Total Product divided by Quantity of variable Factor equals Average Product

(c) Marginal Product and Average Product can be calculated from Total Product

(d) All of the above

118. When Average Product (AP) decreases as result of an increase in the quantity of variable input –

(a) MP is more than AP

(b) MP is less than AP

(c) AP = AP

(d) There is no relationship between MP and AP

119. Marginal Product (MP) Curve cuts Average Product (AP), when –

(a) MP < AP

(b) MP = AP

(c) MP > AP

(d) MP = 0

120. Marginal Product (MP) rises steeply, and also declines slightly earlier than Average Product (AP) Curve. This statement is –

(a) True

(b) False

(c) Partially True

(d) None of the above

121. The Marginal, Average and Total Product Curves encountered by the firm producing in the short run exhibit all of the following relationships except –

(a) When Total Product is rising, Average and Marginal Product may be either rising or falling.

(b) When Marginal Product is negative, Total Product and Average Product are falling.

(c) When Average Product is at a maximum, Marginal Product equals Average Product, and Total Product is rising

(d) When Marginal Product is at a maximum, Average Product equals Marginal Product, and Total Product is falling

122. Which of the following is not an assumption in the Law of Variable Proportions?

(a) There are no perfect substitutes for the Fixed Factor

(b) Only one factor input is considered variable, while all other factors are fixed

(c) State of Technology is improved as more output is produced

(d) Only Physical quantities of inputs and outputs are considered

123. In agriculture, the land area is taken as constant, while number of workers can be increased. If we apply the law of Variable Proportions in this situation, it means that the Variable Factor of Production is –

(a) Number of workers

(b) Land

(c) Both (a) and (b)

(d) Neither (a) nor (b)

124. In the production of wheat, all of the following are variable factors that are used by the farmer except –

(a) The seed and fertilizer used when the crop is planted

(b) The field that has been cleared of trees and in which the crop is planted

(c) The tractor used by the farmer in planting and cultivating not only wheat but also corn and barley

(d) The number of hours that the farmer spends in cultivating the wheat fields

125. When a Factory is working at 75% capacity, increasing of variable inputs, leads to –

(a) Increasing of output

(b) Decreasing of output according to the Law of Diminishing Returns

(c) Increasing of output up to full capacity and later decreasing of the Marginal Product according to the Law of Diminishing Returns

(d) Decreasing of output up to full capacity and later increasing of the output

126. The order of stages in the Law of Variable Proportions are –

(a) Increasing Returns, Negative Marginal Returns, Diminishing Returns

(b) Increasing Returns, Diminishing Returns, Negative Marginal Returns

(c) Negative Marginal Returns

(d) Diminishing Return, Negative Marginal Returns, Increasing Returns

127. The stage of Increasing Returns applies from _____.

(a) Origin to Point where AP is maximum

(b) Point where AP is maximum to point when TP is maximum

(c) Point when TP declines and MP becomes negative

(d) All the above

128. A firm is operating at an output level, where its Total Product is increasing at an increasing rate. This implies that the Firm's

(a) Marginal Cost must be falling at an increasing rate

(b) Marginal Product is increasing at an increasing rate

(c) Average Product is increasing

(d) Both (a) and (c)

129. In case of law of variable proportions, diminishing return occur.

(a) When units of a variable input are added to a fixed input and total product falls

(b) When units of a variable input are added to a fixed input and marginal product falls

(c) When the size of the plant is increased in the long run.

(d) When the quantity of the fixed input is increased and returns to the variable input falls

130. The stage of Negative Marginal Returns applies from _____.

(a) Origin to Point where AP is Maximum

(b) Point where AP is Maximum to Point when TP is maximum

(c) Point when TP declines and MP becomes negative

(d) All the above

131. Which of the following stages of production is known as stage of Negative Returns?

(a) When AP is Negative

(b) When MP is decreasing

(c) When MP is Negative

(d) Both (a) and (b)

132. In which of the following situations, the law of Variable Proportions will not apply?

(a) Long-Run

(b) Same level of technology

(c) Change in proportions in which Factors are used

(d) Short-Run

If Stage I = Increasing Return, Stage II = Diminishing Return, Stage III = Negative Marginal Returns, answer the next 5 questions.

133. A Rational Producer will not operate in –

(a) Stage I

(b) Stage II

(c) Stage III

(d) All of the above

134. A Rational Producer will not operate in –

(a) Stage I and II

(b) Stage II and III

(c) Stage III and I

(d) All of the above

135. Stage I and II are called –

(a) Economics Absurdity

(b) Economics Stability

(c) Economic Equilibrium

(d) All of the above

136. A Rational Producer will not operate in Stage I due to the reason that –

(a) There is more scope for making the best use of the Fixed Factor

(b) Total Output still shows an increasing trend

(c) Optimal Combination of Fixed and Variable Factor is not yet achieved

(d) All of the above

137. A Rational Producer will not operate in Stage III due to the reason that –

(a) The Fixed Factor has become over – used and inefficient

(b) There is a reduction in Total Output

(c) The MP of the Variable Factor is negative

(d) All of the above

138. In an automobile manufacturing unit, factors of production like labour, material and capital are increased by 10% and thereby output increases. It implies that the firm is experiencing …….

(a) Constant Returns to scale

(b) Decreasing Returns to scale

(c) Increasing Return to scale

(d) Increasing as well as decreasing

139. If Decreasing Returns to Scale are present, then if all inputs are increased 20% then

(a) Output will also decrease by 20%

(b) Output will increase by 20%

(c) Output will increase by less than 20%

(d) Output will increase by more than 20%

140. If as a result of 60% increase in all inputs, the output rises by 85%, this is a case of:

(a) Increasing Returns to Factor.

(b) Increasing Returns to Scale.

(c) Constant Returns to factor.

(d) Constant Returns to Scale

141. In which of the following cases does output double with the doubling of all inputs?

(a) Constant Returns to Scale.

(b) Increasing Return to Scale

(c) Increasing Return to Scale.

(d) Increasing as well as decreasing returns

142. If two units of labour and two units of capital give 400 units of output, four units of labour and four units of capital give 800 units of output and eight units of labour and eight units of capital give 1600 units of output then this is a case of:

(a) Constant Returns to scale.

(b) Increasing Returns to Scale.

(c) Decreasing Return to Scale

(d) Negative returns to scale

143. If all inputs are trebled and the resultant output is doubled, this is a case of:

(a) Constant Returns to Scale

(b) Increasing Return to Scale.

(c) Diminishing Return to Scale

(d) Negative returns to scale.

144. 'In electrically generation plants when the plant grows too large, risks of plant failure with regard to output increases disproportionately'. Which concept of returns to scale are we referring to?

(a) Constant Returns to Scale.

(b) Increasing Returns to Scale.

(c) Decreasing Returns to Scale.

(d) Balance Returns to Scale.

145. If Willingness to Save is less, the level of ____ will be higher.

(a) Government regulated Savings

(b) Compulsory Savings

(c) Forced Savings

(d) All of the above

146. Returns to scale will said to be in operation when quantity of

(a) All inputs are changed

(b) All inputs are changed in already established proportion

(c) All inputs are not changed

(d) One input in changed while quantity of all other remain the same

147. Which of the following statements is true?

(a) After the inflection point of the production function, a greater use of the variable input induces a reduction in the marginal product.

(b) Before reaching the inevitable point of decreasing marginal return, the quantity of output obtained can increase at an increasing rate.

(c) The first stage corresponds to the range in which the AP is increasing as a result of utilizing increasing quantities of variable inputs.

(d) All the above.

148. Suppose the first four units of a variable input generate corresponding total outputs of 400, 550, 650, 700. The marginal product of the third unit of input is:

(a) 50

(b) 100

(c) 150

(d) 400

149. If a firm moves from one point on a production isoquant to another, which of the following will not happen

(a) A change in the ratio in which the inputs are combined to produce output.

(b) A change in the ratio of marginal product of the inputs.

(c) A change in the marginal rate of technical substitution.

(d) A change in the level of output.

150. In the short run, the firm's product curves show that –

(a) Total product begins to decrease when average product begins to decrease but continues to increase at a decreasing rate.

(b) When marginal product is equal to average product, average product is decreasing but at its highest.

(c) When the marginal product curve cuts the average product curve from below, the average product is equal to marginal product.

(d) In stage two, total product increases at a diminishing rate and reaches maximum at the end of this stage.

Theory of Cost

151. Cost Analysis is the study of behaviour of _____, in relation to one or more production criteria.

(a) Price and Revenue

(b) Profits

(c) Costs

(d) Output Quantity

152. Cost Functions are Derived Functions. They are derived from –

(a) Demand Function

(b) Supply Function

(c) Isoquant Function

(d) Production Function

153. The functional Relationship between Output and the Long Run Cost of Production is known as as –

(a) Cost function

(b) Long Run cost function

(c) Short Run Cost function

(d) Output Function

154. Which theory proposes that a country could be better off by producing the product in which it has relatively lower labour cost and relatively higher Labour productivity?

(a) Absolute Advantage Theory

(b) Relative Advantage Theory

(c) Comparative Advantage Theory

(d) Imitation Theory

155. Costs which involve payment made by the Entrepreneur to providers of other factors of production are called –

(a) Explicit Cost

(b) Implicit Cost

(c) Variable Cost

(d) Fixed Cost

156. Explicit Costs are also known as –

(a) Out-of-Costs

(b) Outlay Costs

(c) Accounting Costs

(d) All of the above

157. Cost which do not involve any cash payment to outsiders are called –

(a) Explicit Cost

(b) Implicit Cost

(c) Variable Cost

(d) Fixed Cost

158. Implicit Cost are also known as –

(a) National Costs

(b) Opportunity Costs

(c) Imputed Costs

(d) All of the above

159. ____ involve subjective estimation.

(a) Implicit Costs

(b) Outlay Cost

(c) Out-of-Pocket Cost

(d) Accounting Costs

160. Direct costs are _____

(a) Traceable costs
(b) Indirect costs

(c) Implicit costs

(d) Explicit costs

161. Economic Cost includes –

(a) Wages paid to Workers / Labourers

(b) Rent for Land and Building used in business

(c) Normal Rate of Profit in the business

(d) All of the above

162. Economic profits are –

(a) Difference between Total Revenue, and Total Implicit and Explicit Cost

(b) Difference between Total Revenue, and Total Economics Costs

(c) Zero in a perfectly competitive industry in the long – run

(d) All the above

163. Opportunity Cost refers to –

(a) Cost of opportunity foregone

(b) Comparison between the policy that was chosen and the policy that was rejected

(c) Costs relating to sacrificed alternatives

(d) All of the above

164. Outlay Costs –

(a) Involve cash payment

(b) Do not involve any cash payment

(c) Both (a) and (b)

(d) Neither (a) nor (b)

165. _____ Cost is the Total Additional Cost that a Firm has to incur, as a result of implementing a major managerial decision.

(a) Sunk

(b) Incremental

(c) Opportunity

(d) Marginal

166. _____ are readily identified and are traceable to a particular product, service, operation, or plant

(a) Direct Costs

(b) Indirect Costs

(c) Both (a) and (b)

(d) Neither (a) nor (b)

167. _____ are not readily identified nor visibly traceable to specific goods, service operations, etc.

(a) Direct Costs

(b) Indirect Costs

(c) Both (a) and (b)

(d) Neither (a) nor (b)

168. Fixed Cost can be defined as –

(a) Which does not change with output

(b) Which changes with sales

(c) Which changes proportionately with output

(d) All of the above

169. Variable Cost are –

(a) Period – related

(b) Product – related

(c) Both (a) and (b)

(d) Neither (a) nor (b)

170. Variable Cost includes the Cost of –

(a) Buying Land and Building

(b) Hire Charge paid for the Machinery

(c) Salary to Manager

(d) Material Bought

171. _____ is the addition made to the total Cost by production of an additional

(a) Fixed Costs

(b) Variable Costs

(c) Total Costs

(d) Marginal Costs

172. _____ Costs are important in short term decision making of the firm, to determine the output at which profit can be maximized.

(a) Fixed

(b) Sunk

(c) Opportunity

(d) Marginal

173. Marginal Cost Curve of a Firm will be –

(a) L Shaped

(b) J Shaped

(c) U Shaped

(d) Inverted U Shaped

174. Marginal Costs are applicable in –

(a) Shot-Run

(b) Long-Run

(c) Both (a) and (b)

(d) Neither (a) and (b)

175. Diminishing Marginal Returns implies:

(a) Constant MC

(b) Increasing Marginal Cost

(c) Decreasing MC

(d) All of the above

176. Additional cost incurred by a Firm as a result of a business decision –

(a) Sunk Cost

(b) Replacement Cost

(c) Increment Cost

(d) Extra Cost

177. Costs which are already incurred once and for all, and cannot be recovered.

(a) Historical Cost

(b) Sunk Cost

(c) Private Cost

(d) None of the above

178. Social Cost =

(a) Explicit Cost + Implicit Cost

(b) Private of Decreasing Cost

(c) Private Cost + Internal Cost

(d) None of the above

179. U-Shaped average cost curve is based on:

(a) Law of increasing cost

(b) Law of constant cost

(c) Law of constant returns to scale

(d) Law of variable portions

180. If total cost at 10 units is ₹ 600 and ₹ 640 for 11^{th} unit. The marginal cost or 11^{th} unit is

(a) ₹ 20

(b) ₹ 30

(c) ₹ 40

(d) ₹ 50

181. External economies accrue due to ____

(a) Increasing returns to scale

(b) Increasing return to factor

(c) Law of variable proportion

(d) Low cost

182. Long run does not have:

(a) Average Cost

(b) Total Cost

(c) Fixed Cost

(d) Variable Cost

183. Find AFC Cost of 3 units:

Unit	0	1	2	3
Total Cost	1	25	35	45

(a) 5

(b) 10

(c) 15

(d) 25

184. Which of the following is known as Envelop Curve?

(a) Average variable cost curve

(b) Average total cost curve

(c) Long run average cost curve

(d) Short run average cost curve

185. A firm will close down in the short period if its average revenue is less than its:

(a) Average Cost

(b) Average Variable Cost

(c) Marginal Cost

(d) Average Fixed Cost

186. In which of the following cases opportunity cost concept applies?

(a) Resources have alternative uses

(b) Resources have limited uses

(c) Resources have no use

(d) None of the above.

187. The positively sloped (rising) part of the long run average cost curve indicated working of the ____

(a) Diseconomies of scale

(b) Increasing returns to scale

(c) Constant returns to scale

(d) Economics of scale

188. External Economies arise due to:

(a) Growth of ancillary industries

(b) High cost of technologies

(c) Increase in the price of factors of production

(d) None of the above

189. The cost which remains fixed over certain range of output but suddenly jumps to a new higher level when production goes beyond a given limit are called

(a) Variable cost

(b) Semi-variable cost

(c) Stair-step variable cost

(d) Jumping cost

190. Which of the following statements is true of the relationship among the Average Cost Function?

(a) ATC = AFC – AVC

(b) AVC = AFC + ATC

(c) AFC = ATC + AVC

(d) AFC = ATC – AVC

191. Average Fixed Cost (AFC) of a Firm is _____ related to its output.

(a) Directly

(b) Inversely

(c) Proportionately

(d) Not

192. Average Variable Cost (AVC) equals –

(a) ATC – AFC

(b) TVC divided by Output Quantity

(c) Both (a) and (b)

(d) Neither (a) nor (b)

193. Average Cost (AC) equals –

(a) ATC + AFC

(b) Total Cost divided by Output Quantity

(c) Both (a) and (b)

(d) Neither (a) nor (b)

194. Marginal Cost Curve cuts the Average Cost Curve –

(a) At the left to its lowest point

(b) At its lowest point

(c) At the right to its lowest point

(d) Any of the above

195. When _____, we know that the Firms must be producing at the minimum point of the Average Cost Curve and so there will be productive efficiency.

(a) AC = AR

(b) MC = AC

(c) MC = MR

(d) AR = MR

196. The period of time in which the Plant Capacity can be varied is known as –

(a) Short Period

(b) Market Period

(c) Long Period

(d) All of the above

197. Which one of the following is also known as Planning Curve?

(a) Long – Run Average Cost Curve

(b) Short – Run Average Cost Curve

(c) Average Variable Cost Curve

(d) Average Total Cost Curve

198. In the long-run, the Firm will operate at the ____ for any output level, by choosing the appropriate Plant Size.

(a) Optimum Cost

(b) Minimum Cost

(c) Maximum Cost

(d) Nothing can be said

199. Long Run Average Cost Curves are broadly –

(a) U – Shaped

(b) Inverted U – Shaped

(c) V – Shaped

(d) L – Shaped

200. The LAC Curve –

(a) Falls when the LMC Curve falls

(b) Rises when the LMC Curve rises

(c) Goes through the lowest point of the LMC Curve

(d) Falls when LMC < LAC and rises when LMC > LAC

201. For Cost Analysis Purposes, the Production Criteria may e –

(a) Prices of factors of production

(b) Quantity of output

(c) Either (a) or (b)

(d) Neither (a) nor (b)

202. Cost function refers to the mathematical relationship between cost of a product and the various determinants of Cost. This statement is

(a) True

(b) False

(c) Partially True

(d) None of the above

203. In a cost Function, the Total cost or cost per unit is a/an –

(a) Dependent Variable

(b) Independent variable

(c) Either (a) or (b)

(d) Neither (a) nor (b)

204. If Output increases in the short-run, Total Cost will –

(a) Increase due to an increase in Fixed Costs only

(b) Increase due to an increase in Variable Cost only

(c) Increase due to an increase in both Fixed and Variable Costs

(d) Decreases if the Firm is in the region of Diminishing Returns

205. In a Cost Function, the Scale of Operations is a/an –

(a) Dependent variable

(b) Independent variable

(c) Either (a) or (b)

(d) Neither (a) nor (b)

206. Identify the Dependent Variable in a Cost Function from the following.

(a) Quantity of output

(b) Scale of operations

(c) Total cost

(d) Price of Factors of Production

207. Which of the following statements regarding the Long Run Cost Function is not true?

(a) The Firm adjusts Factors of Production to meet the market demand

(b) Firms identify a combination that gives maximum output at the lowest Cost

(c) Inputs are chosen for producing a desired level of output

(d) All the inputs in the long-run are fixed

208. Which of the following statements regarding short and Long Run Cost Function is not True?

(a) A Variable Input Varies according to the quantity of output to be produced

(b) In the Short Run, one or more of the inputs of the production process is fixed

(c) In the Long Run, all the inputs are fixed

(d) In the Long Run there are no restrictions on the resource allocation in the production process

209. A product can be produced using two input combinations A and B. Combination A takes 2 units of Labour and 8 units of Capital. Combination B takes 3 units of Labour and 5 units of Capital, what is the Marginal Rate of Technical Substitution of Labour for Capital?

(a) 0

(b) 2

(c) 3

(d) 5

210. Which of the following is an example of an "Explicit Cost"?

(a) Wages a proprietor could have made by working as an employee of a large firm

(b) Income that could have been earned in alternative uses by the resources owned by the Firm

(c) Payment of wages by the firm

(d) Normal profit earned by a firm

211. Which of the following does not relate to implicit Costs?

(a) Notional Costs

(b) Out-of-Pocket Costs

(c) Imputed Costs

(d) Opportunity Costs

212. Which of the following is not Implicit Cost?

(a) Land owned by Entrepreneur and used for business purposes, on which no Rent is paid.

(b) Wages or Salary not paid to the Entrepreneur, but could have been earned if his services had been sold somewhere else, i.e. if he were employed in another Firm.

(c) Normal Return on Money Capital invested by Entrepreneur himself in his own business

(d) All of the above

213. Which of the following Costs does not include the contractual cash payments which the Firm makes to other Factor Owners for purchasing or hiring various factors?

(a) Private Costs

(b) Variable Costs

(c) Accounting Costs

(d) Implicit Costs

214. If Land is owned by the Entrepreneur, Rent is an –

(a) Implicit Cost

(b) Explicit Cost

(c) Hidden Cost

(d) Undisclosed Cost

215. If capital is borrowed and used in the business, Interest on Capital is –

(a) Implicit Cost

(b) Explicit Cost

(c) Hidden Cost

(d) Undisclosed Cost

216. A firm is producing 7 units of output and incurs an average total cost of ₹150. It has to pay ₹350 towards fixed factors of production. What is the portion of variable cost in the average total cost?

(a) ₹200

(b) ₹100

(c) ₹50

(d) ₹30

217. Which of the following is an example of an Accounting Cost?

(a) Interest paid to Bank on short-term loan taken

(b) Cost incurred on the purchase of raw materials

(c) Wages paid to Labourers

(d) All the above

218. Economic Cost includes-

(a) Accounting Cost + Non-Accounting Cost

(b) Fixed Cost + Variable Cost

(c) Explicit Cost + Implicit Cost

(d) Short Run Cost + Long Run Cost

219. Which of the following is true regarding Economic Cost and Accounting Cost?

(a) Economic Cost = Accounting Cost

(b) Economic Cost > Accounting Cost

(c) Economic Cost < Accounting Cost

(d) None of the above

220. Which of the following is true regarding Economic Cost and Accounting Cost?

(a) Economic Cost less Accounting Cost = Explicit Cost

(b) Economic Cost less Accounting Cost = Implicit Cost

(c) Accounting Cost less Economic Cost = Explicit Cost

(d) Accounting Cost less Economic Cost = Implicit Cost

221. When Total Revenue is less than Accounting Cost, it means that the Firm incurs Losses-

(a) In the accounting sense

(b) In the economic sense

(c) Both (a) and (b)

(d) Neither (a) nor (b)

222. When total revenue exceeds Economic Costs, it means that the Firm-

(a) Has No- Profit No-Loss

(b) Earns Normal Profits

(c) Earns more than Normal Profits (i.e. Super Normal Profits)

(d) Incurs Losses

223. If there are Implicit Costs of Production –

(a) Economic Profit will be equal to Accounting Profit.

(b) Economic Profit will be less than Accounting Profit.

(c) Economic Profit will be zero.

(d) Economic Profit will be more than Accounting Profit.

224. Which of the following statements is false?

(a) Economic Costs include the Opportunity Costs of the Resources owned by the firm

(b) Accounting Costs included only Explicit Costs

(c) Economic Profit will always be less than Accounting Profit if resources owned and used by the firm have any Opportunity Costs

(d) Accounting Profit is equal to Total Revenue less Implicit Costs

225. If a resources can be put only to a particular use, then, Opportunity Costs-

(a) Are applicable and quantifiable

(b) Are applicable but not quantifiable

(c) Are not applicable at all

(d) None of the above

226. Which of the following is not true with reference to Opportunity Cost?

(a) It is the value of the next best use for an economic good

(b) It is the value of a sacrificed alternative

(c) It is useful in decision-making

(d) It does not take into consideration, the cost of time

227. A manager needs an assistant manager and an additional sales executive for the marketing Department. But, due to financial constraints, he can able to recruit only one i.e. either an assistant manager or a sales executive. Finally, he decides to recruit the assistant manager and had to give up the idea of having an additional sales executive in the Marketing Department. Here, the Cost of nor hiring an additional sales executive is known as –

(a) Accounting Cost

(b) Cost Possibility Curve

(c) Opportunity Cost

(d) Substitution Effect

228. Which of the following statement is true?

(a) Marginal Cost is a sub-set of Incremental Cost

(b) Increment Cost is a sub-set of Marginal Cost

(c) Marginal Cost is a sub-set of Sunk Cost

(d) Sunk Cost is a sub-set of Incremental

229. Which of the following statement best describes Sunk Costs?

(a) Costs which are incurred in the past

(b) Cost incurred by the Firm as result of bankruptcy of one of its Creditors

(c) Cost incurred by the Firm as result of the fire that broke into one of the Firm's godown

(d) Setting off the losses that the Firm incurred in the previous years

230. Which of the following is correct?

(a) Firms that earn Accounting Profits are economically profitable

(b) Opportunity Cost plus Accounting Cost equal Economic Cost

(c) When a Firm's Demand Curve slopes down, Margin Revenue will rise as output rises

(d) Firms increase profits by selling more output than their rivals

231. Suppose that Ram finds ₹500. If he choose to use ₹500 to go to a cricket match, his opportunity cost of going to the game is _____

(a) Nothing, because he found the money

(b) Only the value of his time spent at the game+ The expected Normal Interest/Return on ₹500

(c) ₹500 (because he could have used ₹500 to buy other things) plus the value of his time spent at the game, plus the cost of the dinner he purchased at the game

(d) ₹500 (because he could have used the ₹500 to buy other things)

Read the following paragraph and answer the following four questions (#232 to 235).

Radha owns a small embroidery factory. She can make 1,000 pieces of embroidery fabrics per year and sell them for ₹100 each. It cost Radha ₹20,000 for the raw materials to produce the 1,000 pieces of embroider fabrics. She has invested ₹1,00,000 in her factory; equipment cost of ₹50,000 from her savings and ₹50,000 borrowed at 10 per cent. (Assume that she could have loaned her money out at 10 percent, too.) Radha can work at a competing embroidery factory for ₹40,000 per year.

232. The accounting cost at Radha's embroidery factory is:

(a) ₹25000

(b) ₹50000

(c) ₹80000

(d) ₹75000

233. The economic cost at Radha's embroidery factory is:

(a) ₹75000

(b) ₹70000

(c) ₹80000

(d) ₹30000

234. The accounting profit at Radha's embroidery factory is:

(a) ₹30000

(b) ₹50000

(c) ₹80000

(d) ₹75000

235. The economic profit at Radha's embroidery factory is:

(a) ₹75000

(b) ₹35000

(c) ₹80000

(d) ₹30000

236. If a firm produces zero output in short period-

(a) Its Total Cost will be zero

(b) Its variable Cost will be positive

(c) Its fixed Cost will be positive

(d) Its Average Cost will be zero

237. As output increase, Total Fixed Cost –

(a) Decreases

(b) Increases

(c) Remains constant

(d) Becomes zero

238. Some portion of Fixed Costs cannot be avoided even when operations are suspended. These are called –

(a) Discretionary Fixed Costs

(b) Committed Fixed Costs

(c) Variable Costs

(d) Semi-Variable Costs

239. The following are some costs incurred by a Clothing Manufacturer. State which among them will be considered as fixed Cost.

(a) Cost of Cloth

(b) Piece Wages paid to Workers

(c) Depreciation on Machines owing to time

(d) Cost of Electricity for running machines

240. Variable Costs are incurred only when production takes place. So, they are in the nature of –

Q	0	1	2	3	4	5	6	7
T	9	14	18	22	26	29	33	37
C	6	6	8	8	0	6	6	8

(a) Discretionary Costs

(b) Committed Costs

(c) Fixed Costs

(d) Semi-Variable Costs

241. All variable Costs are avoidable or discretionary in nature. This statement is –

(a) True

(b) False

(c) Partially True

(d) Nothing can be said

242. Which Cost increase continuously with the increase in production?

(a) Average Cost

(b) Marginal Cost

(c) Fixed Cost

(d) Variable Cost

243. Marginal Cost is independent of Variable Cost. This statement is –

(a) True

(b) False

(c) Partially True

(d) Nothing can be said

244. Which of the following will affect Marginal Costs?

(a) Variable Costs

(b) Output Quantity

(c) Both (a) and (b)

(d) Neither (a) nor (b)

245. Which of the following describes the behaviour of Marginal Cost Curve?

(a) Declines first, reaches its minimum and then rises

(b) Rises first, reaches its maximum and then declines

(c) Remains constant throughout all output levels

(d) Nothing can be said

246. What is the MC of 6^{th} unit of output?

(a) 48

(b) 32

(c) 40

(d) 42

247. Which of the following statement is correct?

(a) An increase in price will make Replacement Costs higher than Historical Cost.

(b) A decrease in price will make Replacement Costs higher than Historical Cost.

(c) An increase in price will make Replacement Costs lower than Historical Cost.

(d) None of the above

248. Which of the following statements is correct concerning the relationships among the Firm's Costs?

(a) TC = TVC x TFC

(b) TC = TFC - TVC

(c) TC = TVC – TFC

(d) TC = TFC + TVC

249. TFC Curve will be a straight line

(a) Parallel to X-Axis

(b) Parallel to Y-Axis

(c) Increasing from left to right

(d) Decreasing from left to right

250. TVC Curve will be a-

(a) Curve with a positive slope

(b) Curve with a negative slope

(c) Either (a) or (b)

(d) Neither (a) nor (b)

251. TC Curve will be a –

(a) Curve will a positive slope

(b) Curve with a negative slope

(c) Either (a) or (b)

(d) Neither (a) nor (b)

252. TC Curve will commence from –

(a) A certain point on the Quantity Axis (X Axis)

(b) A certain point on the Cost Axis (Y Axis)

(c) Origin

(d) Any of the above

253. The distinction drawn between fixed and variable costs is based on:

(a) Whether the costs can or cannot be changed during the life of the plant

(b) Whether the costs do or do not vary with the output produced in the long run

(c) Whether the costs do not enter the calculations of total costs

(d) Whether the costs do or do not vary with the output produced in the short run

254. Which of the following described the behaviour of Average Fixed cost.

(a) Remains constant throughout all output levels
(b) Declines throughout as output increases
(c) Declines first, reaches its minimum and then rises
(d) Rises first, reaches a maximum and then declines

255. Which of the following is true with respect to Average Fixed. Cost?

(a) It is a bell shaped Curve

(b) As the quantity increases it approaches zero

(c) If quantity produced tends to zero, Average Fixed Cost approaches infinity

(d) Both (b) and (c) above

256. Which of the following Cost Curve is never 'U' shaped?

(a) Average Cost Curve

(b) Marginal Cost Curve

(c) Average Variable Cost Curve

(d) Average Fixed Cost Curve

257. Which statement among below is correct in reference to AFC?

(a) Never becomes zero

(b) Curve never touch X-axis

(c) Curve never touch Y-axis

(d) All of these

258. Upto Normal Capacity of output, as output increases, AVC will -

(a) Remain constant

(b) Decrease

(c) Increase

(d) Nothing can be said

259. AVC increases as output increases, beyond normal capacity output, due to –

(a) Law of constant returns

(b) Law of Diminishing returns

(c) Law of increasing returns

(d) Law of Equi-Marginal utility

260. Average Variable Cost Curve has a positive slope-

(a) Upto normal capacity output

(b) Beyond normal capacity output

(c) At all levels of output

(d) Nothing can be· said

261. A Firm produces 20 units of commodity at an average total cost of Rs. 400 and with a fixed cost of Rs.1000. Find out component of average variable cost in total cost.

(a) Rs. 300

(b) Rs. 400

(c) Rs. 350

(d) Rs. 1000

262. Initially Average Cost declines sharply due to the reason that –

(a) AFC declines significantly as output increases

(b) AVC declines significantly as output increases

(c) AFC increases as output increases

(d) AVC increases as output increases

263. Beyond certain output level, when there is an increase in Average Variable Cost (AVC), Average Cost(AC) also increases due to the reason that –

(a) Fall in AFC is less than the sharp in AVC

(b) Fall in AFC is greater than the sharp rise in AVC

(c) Fall in AFC is equal to the rise in AVC

(d) None of the above

264. The AC Curve and AVC Curve start increasing at the same output level only. This statement is

(a) True

(b) False

(c) Partially True

(d) Nothing can be said

265. Which of the following statement is correct?

(a) When Average Cost is rising, Marginal Cost must also be rising

(b) When Average Cost is rising, Marginal Cost must also be falling
(c) When Average Cost is rising, Marginal Cost is above the Average Cost
(d) When Average Cost is falling, Marginal Cost must be rising

266. Which of the following is true of the relationship between Marginal Cost and Average Cost Functions?
(a) If MC is greater than AC, then AC is falling
(b) AC Curve intersects the MC Curve at minimum MC
(c) MC Curve intersects the AC Curve at minimum AC
(d) If MC is less than AC, then AC is increasing

267. When shape of Average Cost Curve is upward, Marginal Cost –
(a) Must be decreasing
(b) Must be constant
(c) Must be rising
(d) Any of the above

268. The MC Curve cuts the AVC and ATC Curves
(a) At the falling part of each.
(b) At different points.
(c) At their respective minimal.
(d) At the rising part of each

269. When AC falls as a result of an increase in output –
(a) MC=AC
(b) MC<AC
(c) MC>AC
(d) Nothing can be said

270. In the long-run, the Firm will try to select-
(a) Lowest point of every SAC
(b) SAC with the lowest cost for a particular level of output
(c) Both (a) and (b)
(d) Neither (a) nor (b)

271. In the long-run, when there are infinite SAC Curves, the LAC Curve will be-
(a) Perpendicular to each SAC Curve
(b) Connecting the lowest points of each SAC Curve
(c) Smooth Curve, so as to be tangent to each of the SAC Curve
(d) All of the above

272. When LAC Curve is declining, it will be tangent to the
(a) Falling portions of the SAC Curves
(b) Rising portions of the SAC Curves
(c) Both (a) and (b)
(d) Neither (a) nor (b)

273. Which of the following statements concerning the Long-Run Average Cost Curve is false?

(a) It represents the least-cost input combination for producing each level of output
(b) It is derived from a series of Short-Run Average Cost Curves
(c) The Short-Run Cost Curve at the minimum point of the LAC Curve represents the least-cost Plant Size for all levels of output
(d) As output increases, the amount of capital employed by the Firm increases along the Curve.

274. If the LAC Curve rises as output expands, this fall is due to –
(a) Economies of Scale
(b) Law of Diminishing Returns
(c) Diseconomies of Scale
(d) Any of the above

275. Diseconomies of Scale refer to –
(a) Forces which reduce the Average Cost of producing a product as the Firm Expands the Size of its plant.
(b) Forces which reduce the Marginal Cost of producing as the Firm Expands the Size of its plant.
(c) Forces which increase the Average Cost of producing a producing as the Firm Expands the Size of its plant.
(d) Forces which increase the Marginal Cost of producing a product as the Firm Expands the Size of its plant

276. Which of the following is an important ingredient of Selling Economies?
(a) Advertising Economies
(b) Inventory Economies
(c) Transportation Economies
(d) Storage Economies

277. Which of the following is not a type of pecuniary Economies of Scale?
(a) Reduction in prices of raw materials, as a result of discounts due to large volumes from the Suppliers
(b) Lower costs of external finance as banks often offer loans to large Firms at a lower rate of interest
(c) Lower advertising rates for large Firms if they advertise at large scales
(d) Economies achieved by increasing the scale of output mainly due to division of labour

278. Difficulties of management, co-ordination and control due to bigger Plant Size is an example of-
(a) Internal Economies of Scale
(b) Internal Diseconomies of Scale
(c) External Economies of Scale
(d) External Diseconomies of Scale

279. Internal and External Economies and Diseconomies of Scale has its impact on –
(a) Long Run Average Cost (LAC) Curve
(b) Short Run Average Cost (SAC) Curve
(c) Both (a) and (b)
(d) Neither (a) nor (b)

280. If the LAC curve falls as output expands, this is due to-
(a) Law of Diminishing returns
(b) Economies of Scale
(c) Law of Variable Proportions
(d) Diseconomies of Scale

281. Identify the correct statement
(a) Average Product is at its maximum when Marginal Product is equal to Average Product
(b) Law of Increasing Returns to Scale relates to the effect of changes in factor proportions
(c) Economies of Scale arise only because of invisibilities of factor proportions
(d) Internal Economies of scale can accrue only to the exporting sector

282. Warehouse rent is a part of which cost?
(a) Production cost
(b) Distribution cost
(c) Prime cost
(d) Factory cost

Use Table to answer the following 8 questions.

The following table provides total cost and quantity produced by an individual firm. Calculate the missing values in the table and use the table to answer the below 8 questions.

Q	TC	TFC	AFC	TVC	AVC	SAC	SMC
1	5						
2	65						
3	75						
4	95		5				
5	130						
6	185						

283. What is the value of TFC at the 2nd unit?
(a) 20
(b) 30
(c) 10
(d) 5

284. What is the value of AFC at the 6^{th} unit?
(a) 6.33
(b) 3.33
(c) 4.33
(d) 1.33

285. What is the value of TVC at the 3^{rd} unit?
(a) 45
(b) 65
(c) 70
(d) 55

286. What is the value of AVC at the 4th unit?
(a) 18.75
(b) 18.25
(c) 18.50
(d) 19.75

287. What is the value of SAC at the 2nd unit?
(a) 50
(b) 32.5
(c) 42.5
(d) 52.5

288. What is the value of SAC at the 5th unit?
(a) 23.75
(b) 26
(c) 32.75
(d) 26.75

289. What is the value of SMC at the 1st unit?
(a) 50
(b) 30
(c) 60
(d) 20

290. What is the value of SMC at the 6th unit?
(a) 55
(b) 110
(c) 60
(d) 120

ANSWER KEY

1.	B
2.	A
3.	A
4.	A
5.	C
6.	B
7.	B
8.	B
9.	C
10.	C
11.	C
12.	C
13.	B
14.	C
15.	B

16.	D
17.	C
18.	A
19.	B
20.	A
21.	C
22.	B
23.	C
24.	A
25.	A
26.	A
27.	B
28.	B
29.	D
30.	C

31.	D
32.	B
33.	A
34.	C
35.	C
36.	D
37.	A
38.	B
39.	B
40.	C
41.	D
42.	C
43.	C
44.	A
45.	C

46.	**B**
47.	**B**
48.	**A**
49.	**C**
50.	**C**
51.	**D**
52.	**C**
53.	**A**
54.	**C**
55.	**D**
56.	**D**
57.	**B**
58.	**A**
59.	**A**
60.	**D**

61.	**B**
62.	**D**
63.	**D**
64.	**B**
65.	**B**
66.	**C**
67.	**D**
68.	**D**
69.	**D**
70.	**C**
71.	**B**
72.	**C**
73.	**A**
74.	**A**
75.	**C**

76.	**B**
77.	**A**
78.	**A**
79.	**C**
80.	**D**
81.	**D**
82.	**B**
83.	**C**
84.	**D**
85.	**C**
86.	**C**
87.	**D**
88.	**A**
89.	**B**
90.	**D**

91.	**C**
92.	**A**
93.	**C**
94.	**B**
95.	**C**
96.	**A**
97.	**B**
98.	**B**
99.	**B**
100.	**A**
101.	**B**
102.	**B**
103.	**B**
104.	**C**
105.	**B**

106.	**A**
107.	**C**
108.	**D**
109.	**A**
110.	**C**
111.	**B**
112.	**C**
113.	**C**
114.	**B**
115.	**A**
116.	**A**
117.	**D**
118.	**B**
119.	**B**
120.	**A**

121.	**D**
122.	**C**
123.	**A**
124.	**B**
125.	**C**
126.	**B**
127.	**A**
128.	**D**
129.	**B**
130.	**C**
131.	**C**
132.	**A**
133.	**B**
134.	**C**
135.	**A**

136.	**D**
137.	**D**
138.	**C**
139.	**C**
140.	**B**
141.	**A**
142.	**A**
143.	**C**
144.	**C**
145.	**D**
146.	**B**
147.	**D**
148.	**B**
149.	**B**
150.	**D**

151.	**C**
152.	**D**
153.	**B**
154.	**C**
155.	**A**
156.	**D**
157.	**B**
158.	**D**
159.	**A**
160.	**A**
161.	**D**
162.	**D**
163.	**D**
164.	**A**
165.	**B**

166.	**A**
167.	**B**
168.	**A**
169.	**B**
170.	**D**
171.	**D**
172.	**D**
173.	**C**
174.	**C**
175.	**B**
176.	**C**
177.	**B**
178.	**B**
179.	**D**
180.	**C**

181.	**C**
182.	**C**
183.	**A**
184.	**C**
185.	**B**
186.	**A**
187.	**A**
188.	**A**
189.	**C**
190.	**D**
191.	**B**
192.	**C**
193.	**C**
194.	**B**
195.	**B**

196.	**C**
197.	**A**
198.	**B**
199.	**A**
200.	**D**
201.	**C**
202.	**A**
203.	**A**
204.	**D**
205.	**B**
206.	**C**
207.	**D**
208.	**C**
209.	**C**
210.	**C**

211.	**B**
212.	**D**
213.	**D**
214.	**A**
215.	**B**
216.	**B**
217.	**D**
218.	**C**
219.	**B**
220.	**B**
221.	**C**
222.	**C**
223.	**B**
224.	**C**
225.	**C**

226.	**D**
227.	**C**
228.	**A**
229.	**A**
230.	**B**
231.	**B**
232.	**A**
233.	**B**
234.	**D**
235.	**D**
236.	**C**
237.	**C**
238.	**B**
239.	**C**
240.	**A**

241.	**A**
242.	**D**
243.	**B**
244.	**C**
245.	**A**
246.	**C**
247.	**A**
248.	**D**
249.	**A**
250.	**B**
251.	**A**
252.	**B**
253.	**D**
254.	**D**
255.	**D**

256.	**D**
257.	**D**
258.	**B**
259.	**B**
260.	**B**
261.	**C**
262.	**A**
263.	**A**
264.	**B**
265.	**C**
266.	**C**
267.	**C**
268.	**C**
269.	**B**
270.	**B**

271.	**C**
272.	**C**
273.	**C**
274.	**C**
275.	**C**
276.	**A**
277.	**D**

278.	**B**
279.	**A**
280.	**B**
281.	**A**
282.	**B**
283.	**A**
284.	**B**

285.	**D**
286.	**A**
287.	**B**
288.	**B**
289.	**B**
290.	**A**