Theory of Production and Cost CA Foundation MCQ Economics Chapter 3

1. What is Production is Economics:
(a) Creating/Addition of Utility
(b) Production of food grains
(c) Creation of services
(d) Manufacturing of goods
Answer:
(a) Creating/Addition of Utility

2. Which of the following is considered as production in economics?
(a) Helping a blind person in crossing the road
(b) Group dance performance in a college annual function
(c) Holding a child who is falling from a wall
(d) Performing an art in a theatre
Answer:
(d) Performing an art in a theatre

3. Which of the following is considered production in Economics?
(a) Tilling of soil.
(b) Singing a song before friends.
(c) Preventing a child from falling into a manhole on the road.
(d) Painting a picture for pleasure.
Answer:
(a) Tilling of soil.

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4. Which of the following statements is true?
(a) The services of a doctor are considered production.
(b) Man can create matter.
(c) The services of a housewife are considered production.
(d) When a man creates a table, he creates matter.
Answer:
(a) The services of a doctor are con-sidered production.

5. 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
Answer:
(b) Production

6. Production is defined as:
(a) Creation of matter
(b) Creation of utility in matter

(c) Creation of infrastructural facilities
(d) None of the above
Answer:
(b) Creation of utility in matter

7. According to _____, Production is the organized activity of transforming resources into finished products in the form of goods and services, and the objective of production is to satisfy the demand of such transformed "resources".
(a) James Bates
(b) J.R. Parkinson
(c) Marshall
(d) Both (a) and (b)
Answer:
(d) Both (a) and (b)

8. _____ to exchange in the market is an essential component of production.
(a) Intention
(b) Ability
(c) Capacity
(d) Possibility
Answer:
(a) Intention

9. Production does not include work done _____.
(a) Within a household out of love & affection
(b) Voluntary services
(c) For self consumption
(d) All of the above.
Answer:
(d) All of the above.

10. Factors of production refer to :
(a) Inputs
(b) Outputs
(c) Both (a) & (b)
(d) Either (a) or (b)
Answer:
(a) Inputs

11. _____ are the factors or resources which make it possible to produce goods and services.
(a) Land, Labour, and Bank
(b) Capital, Owner and manpower
(c) Land, Labour and Entrepreneurial ability
(d) Land, Labour, Capital and Entre preneurial ability
Answer:
(d) Land, Labour, Capital and Entre preneurial ability

12. Which of the following factors of production is a free gift of nature and refers to Natural resources?
(a) Land
(b) Labour
(c) Capital
(d) Entrepreneurial Ability
Answer:
(a) Land

13. 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.
Answer:
(d) It is produced by our forefathers.

14. Which of the following is not a characteristics of Land?
(a) It is a free gift of nature
(b) It is a mobile factor of production
(c) It is limited in quantity
(d) Its productive power is indestruc-tible
Answer:
(b) It is a mobile factor of production

15. Which among the following is not a characteristic of land?
(a) It is an active factor
(b) It has variety of uses
(c) Its production powers are inde-structible
(d) Its supply is limited
Answer:
(a) It is an active factor

16. Which of the following statement about factors of production is not true?
(a) Land is a passive factor
(b) Land is a free gift of nature
(c) Land is immobile
(d) Land is perishable
Answer:
(d) Land is perishable

17. No two pieces of land and alike. They differ in fertility and situation. Therefore, Land is _____.
(a) Homogenous
(b) Heterogeneous
(c) Bitrogeneous
(d) None of these.
Answer:
(b) Heterogeneous

18. Which of the following is correct about Land?
(a) It is mobile
(b) It has single use
(c) Its supply is fixed
(d) It is homogeneous.
Answer:
(c) Its supply is fixed

19. The total supply of Land is _____ from the point of view of the economy. However, it is relatively _____ from the point of view of a firm.
(a) Perfectly Inelastic, Inelastic
(b) Perfectly Inelastic, Relatively Elastic
(c) Perfectly Elastic, Inelastic
(d) Perfectly Elastic, elastic
Answer:
(b) Perfectly Inelastic, Relatively Elastic

20. Labour force wants more _____
(a) Facility
(b) Leisure
(c) Benefit
(d) All of the above
Answer:
(b) Leisure

21. Which of the following is not a characteristic of labour?
(a) It is perishable
(b) It has weak bargaining power
(c) Labour and Labour power cannot be separated
(d) Labour is not mobile
Answer:
(d) Labour is not mobile

22. The labour power or efficiency of labour depends upon the _____
(a) Laborer's inherent and acquired qualities.
(b) Features of work environment
(c) Incentive to work
(d) All of the above.
Answer:
(d) All of the above.

23. Labour is highly perishable in the sense that _____.
(a) A labourer cannot store his labour.
(b) The life of labour is short.
(c) The labourer sells his labour against wages, but retains the capacity to work.
(d) The labour is always low priced.
Answer:
(a) A labourer cannot store his labour.

24. Without the active participation of labour, land and capital may not produce anything. It means labour is factor.
(a) Passive
(b) Active
(c) Working
(d) Executing
Answer:
(b) Active

25. Human capital refers to:
(a) Savings by individuals
(b) Mobilisation of saving
(c) Human skills and abilities
(d) Productive investment
Answer:
(c) Human skills and abilities

26. _____ Capital performs its function is production in a single use and is not available for future use.
(a) Circulating
(b) Fixed
(c) Tangible
(d) Human
Answer:
(a) Circulating

27. Which one of the following may be regarded as a part of social capital?
(a) Roads
(b) Bridges
(c) Machinery
(d) Both (a) & (b)
Answer:
(d) Both (a) & (b)

28. The three stages of capital forma-tion are :
(a) Savings, Mobilization of Savings and investment
(b) Mobilization of Saving, Savings, and investment
(c) Investment, Saving and mobiliza-tion of Saving
(d) Saving, Investment and mobiliza-tion of savings.
Answer:
(a) Savings, Mobilization of Savings and investment

29. _____ means a sustained increase in the stock of real capital in a Country.
(a) Capital formation
(b) Savings
(c) Mobilization of Savings
(d) Mobilization of Capital
Answer:
(a) Capital formation

30. Which one of the following statements is not correct?
(a) Land has indestructible powers
(b) Labour is mobile
(c) Capital is nature's gift
(d) Land is a passive factor.
Answer:
(c) Capital is nature's gift

31. Functions of the entrepreneur are:
(a) Risk bearing
(b) Initiating a business enterprise and resource co-ordinating
(c) Introducing new innovations
(d) All of the above
Answer:
(d) All of the above

32. An Entrepreneur undertakes which one of the following functions?
(a) Initiating a business and resource co-ordination
(b) Risk or uncertainty bearing
(c) Innovations
(d) All of the above
Answer:
(d) All of the above

33. Innovation theory of entrepreneur-ship is propounded by:
(a) Knight
(b) Schumpeter
(c) Max Weber
(d) Peter Drucker
Answer:
(b) Schumpeter

34. The most important function of an entrepreneur is to _____.
(a) Innovate
(b) Bear the sense of responsibility
(c) Finance
(d) Earn profit
Answer:
(a) Innovate

35. Who has given the concept of Innovative Entrepreneurship?
(a) Robbins
(b) Adam Smith
(c) Schumpeter
(d) Sweezy
Answer:
(c) Schumpeter

36. The basic minimum objective of all kinds of enterprises is to survive or to stay alive. It may be regarded as _____ objective of the enterprise.
(a) Organic
(b) Economic
(c) Social
(d) National
Answer:
(a) Organic

37. _____ objective implies the profit maximizing behaviour of the firm.
(a) Organic
(b) Economic
(c) Social
(d) National
Answer:
(b) Economic

38. _____ mobilizes factors of production, combines them in the right proportion, initiates the process of production and bears the risks in¬volved in it.
(a) Businessman
(b) Manager
(c) CEO
(d) Entrepreneur
Answer:
(d) Entrepreneur

39. Which one of the following function is performed by entrepreneur?
(a) Initiating Business Enterprise and resource Co-ordination
(b) Risk-bearing or uncertainty bear¬ing
(c) Innovations
(d) All of the above.
Answer:
(d) All of the above.

40. According to _____, the true function of an entrepreneur is to introduce innovations.
(a) Schumpeter
(b) Peter Ducker
(c) Paul Samuelson
(d) None of the above.
Answer:
(a) Schumpeter

41. Which of the following is the best definition of "production function"?
(a) The relationship between market price and quantity supplied.
(b) The relationship between the firm's total revenue and the cost of production.
(c) The relationship between the quantities of inputs needed to produce a given level of output.
(d) The relationship between the quantity of inputs and the firm's marginal cost of production.
Answer:

(c) The relationship between the quantities of inputs needed to produce a given level of output.

42. A production function is defined as the relationship between _____.
(a) The 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
Answer:
(a) The quantity of physical inputs and physical output of a firm

43. The production function is a rela-tionship between a given combination of inputs and:
(a) Another combination that yields the same output.
(b) The highest resulting output.
(c) The increase in output generated by one-unit increase in one output.
(d) All levels of output that can be generated by those inputs.
Answer:
(b) The highest resulting output.

44. What is a production function?
(a) Technical relationship between physical inputs and physical output.
(b) Relationship between fixed factors of production and variable factors of production.
(c) Relationship between a factor of production and the utility created by it.
(d) Relationship between quantity of output produced and time taken to produce the output.
Answer:
(a) Technical relationship between physical inputs and physical output.

45. Production function is:
(a) Purely a technical relationship between input & output
(b) Purely an economic relationship between input & output
(c) Both the technical &economical relationship between input & output
(d) None of the above
Answer:
(a) Purely a technical relationship between input & output

46. The production function:
(a) Is the relationship between the quantity of inputs used and the resulting quantity of product.
(b) Tells us the maximum attainable output from a given combination of inputs.
(c) Expresses the technological relationship between inputs and output of a product.
(d) All the above.
Answer:
(d) All the above.

47. _____ 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 substitution

Answer:
(b) Production function

48. Which function shows relationship between input and output?
(a) Consumption function
(b) Investment function
(c) Production function
(d) Cost function
Answer:
(c) Production function

49. 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 returns, 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.
Answer:
(d) All the above.

50. Which one of the following is the assumption underlying any production function?
(d) Relationship between inputs and outputs exists for a period of time.
(b) There is a given "State -of- the act" in the production technology.
(c) Whatever input combinations one included in a particular function, the output resulting from their utilization is at the maximum level.
(d) All of the above.
Answer:
(d) All of the above.

51. The short run, as economists use the phrase, is characterized by:
(a) At least one fixed factor of pro-duction and firms neither leaving nor entering the industry.
(b) Generally a period which is shorter than one vear.
(c) All factors of production are fixed and no variable inputs.
(d) All inputs are variable and pro-duction is done in less than one year.
Answer:
(a) At least one fixed factor of pro-duction and firms neither leaving nor entering the industry.

52. To economists, the main difference between the short run and the long run is that:
(a) In the short run all inputs are fixed, while in the long run all inputs are variable.
(b) In the short run the firm varies all of its inputs to find the least-cost combination of inputs.
(c) In 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 equip¬ment efficiently.
Answer:
(c) In the short run, at least one of the firm's input levels is fixed.

53. In describing a given production 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.
Answer:
(d) As long as at least one input is fixed.

54. 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.
Answer:
(d) In stage two, total product increases at a diminishing rate and reaches maximum at the end of this stage.

55. Long period production function is related to:
(a) Law of variable proportions
(b) Laws of returns to scale
(c) Law of diminishing returns
(d) None of the above
Answer:
(b) Laws of returns to scale

56. Long-run does not have:
(a) Average Cost
(b) Total Cost
(c) Fixed Cost
(d) Variable Cost
Answer:
(c) Fixed Cost

57. A fixed input is defined as _____.
(a) That input whose quantity can be quickly changed in the short run, in response to the desire of the company to change its production.
(b) That input whose quantity cannot be quickly changed in the short run, in response to the desire of the company to change its production.
(c) That input whose quantities can be easily changed in response to the desire to increase or reduce the level of production.
(d) That input whose demand can be easily changed in response to the desire to increase or reduce the level of production.
Answer:

(b) That input whose quantity cannot be quickly changed in the short run, in response to the desire of the company to change its production.

58. In the long run, if a very small factory were to expand its scale of operations, it is likely that it would initially experience _____
(a) An increase in pollution level.
(b) Diseconomies of scale.
(c) Economies of scale.
(d) Constant returns to scale.
Answer:
(c) Economies of scale.

59. Paul Douglas and Cobb studied the production function of the _____ manufacturing industries.
(a) American
(b) Japanese
(c) British
(d) Asian
Answer:
(a) American

60. In its original form, the Cobb- Douglas production function applies:
(a) To individual firm
(b) To selected Firms
(c) To whole of manufacturing in the USA
(d) None of the above.
Answer:
(c) To whole of manufacturing in the USA

61. In Cobb-Douglas production function, two inputs are:
(a) Land and Labour
(b) Labour and Capital
(c) Capital and Entrepreneur
(d) Entrepreneur and land
Answer:
(b) Labour and Capital

62. The famous Cobb-Douglas production function is based on studies of _____ industries in the United States of America.
(a) Manufacturing
(b) Construction
(c) Consumer
(d) Aviation
Answer:
(a) Manufacturing

63. If Cobb-Douglas function is given by $Q = KL^aC^b$, then there will be _____ when (a+b) _____.
(a) Increasing returns, > 1
(b) Increasing returns to scale, > 1

(c) Diminishing returns, < 1
(d) Decreasing returns to scale, $= 1$
Answer:
(b) Increasing returns to scale, > 1

64. The conclusion drawn from Cobb-Douglas production function is that labour contributed about _____ and capital about _____ of the increase in the manufacturing production.
(a) 3rd 4, 1st 4
(b) 12, 12
(c) 1th 4, 3th 4
(d) None of the above
Answer:
(b) 12, 12

65. According to Cobb-Douglas pro-duction function, will get _____ returns to scale?
(a) Constant
(b) Diminishing
(c) Increasing
(d) Any of the above
Answer:
(a) Constant

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

No. of labourers	Total Product	Marginal product
0	—	—
1	350	350
2	—	250

(a) 680
(b) 580
(c) 350
(d) 230
Answer:
(b) 580

67. Consider the following table:

Labour	Total Output	Marginal Product
0		
1	100	100
2		80
3	240	

(a) 80
(b) 100
(c) 180
(d) 200
Answer:
(c) 180

68. _____ is the total output resulting from the efforts of all the fac-tors of production combined together at any time.
(a) Total Product
(b) Average Product
(c) Marginal Product
(d) None of the above.
Answer:
(a) Total Product

69. Average product is defined as _____
(a) Total product divided by the total cost.
(b) Total product divided by marginal product.
(c) Total product divided by the number of units of variable input.
(d) Marginal product divided by the number of units of variable input.
Answer:
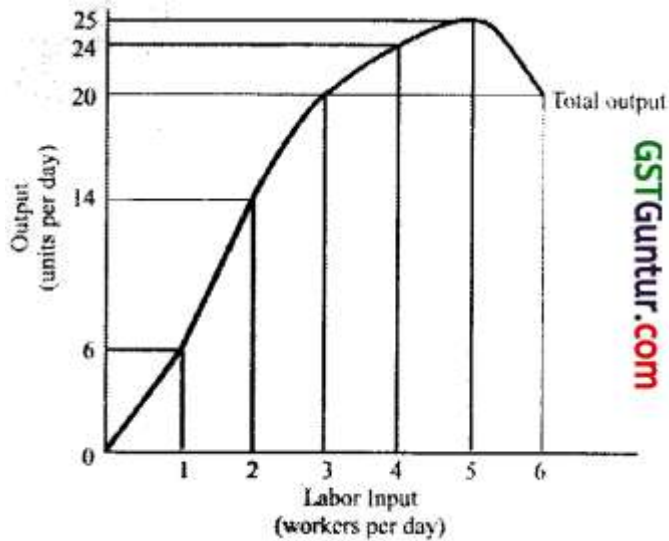(c) Total product divided by the number of units of variable input.

70. Suppose the first four units of a variable input generate corresponding total outputs of 200, 350, 450, 500. The marginal product of the third unit of input is:
(a) 50
(b) 100
(c) 150
(d) 200
Answer:
(b) 100

71. Use the following diagram to answer the question given below it

The marginal physical product of the third unit of labour is _____, the MP of the _____ labour is Negative
(a) Six; fourth
(b) Six; third
(c) Six; fifth
(d) Six; sixth
Answer:
(c) Six; fifth

72. At the point of inflexion, the marginal product is:
(a) Increasing
(b) Decreasing
(c) Maximum
(d) Negative
Answer:
(c) Maximum

73. 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
Answer:
(d) 200

74. The production process described below exhibits.

Number of Workers	Output
0	0
1	23
2	40

| 3 | 50 |

(b) Diminishing marginal product of labour.
(c) Increasing return to scale.
(d) Increasing marginal product of labour.
Answer:
(b) Diminishing marginal product of labour.

75. Marginal product, mathematically, is the slope of the _____.
(a) Total product curve.
(b) Average product curve.
(c) Marginal product curve.
(d) Implicit product curve.
Answer:
(a) Total product curve.

76. Which of the following is Correct?
(a) $MP_n = TP_n − TP_{n-1}$
(b) $MP_n = MP_n − MP_{n-1}$
(c) $MP_n = TP_n + TP_{n-1}$
(d) None of the above
Answer:
(a) $MP_n = TP_n − TP_{n-1}$

77. Marginal, average and total product of a firm in the short run will not comprise with _____.
(a) When marginal production 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
Answer:
(a) When marginal production is at a maximum, average product is equal to marginal product, and total product is rising

78. 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
Answer:
(b) More than average product

79. The marginal product curve is above the average product curve when the average product is:
(a) Increasing

(b) Decreasing
(c) Constant
(d) None
Answer:
(a) Increasing

80. Identify the correct statement:
(a) The average product is at its maxi-mum when marginal product is equal to average product.
(b) The law of increasing returns to scale relates to the effect of changes in factor proportions.
(c) Economies of scale arise only because of indivisibilities of factor proportions.
(d) Internal economies of scale can accrue when industry expands beyond optimum.
Answer:
(a) The average product is at its maxi-mum when marginal product is equal to average product.

81. If the marginal product of labour is below the average product of labour, it must be true that:
(a) The marginal product of labour is negative.
(b) The marginal product of labour is zero.
(c) The average product of labour is falling.
(d) The average product of labour is negative.
Answer:
(c) The average product of labour is falling.

82. The average product of labour is maximized when marginal product of labour:
(a) Equals the average product of labour.
(b) Equals zero.
(c) Is maximized.
(d) None of the above.
Answer:
(a) Equals the average product of labour.

83. 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 rising.
Answer:
(d) When marginal product is at a maximum, average product equals marginal product, and total product is rising.

84. 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 fall¬ing
(d) Average product of labour is negative
Answer:
(a) Marginal product of labour is negative

85. 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.
Answer:
(b) The field that has been cleared of trees and in which the crop is planted.

86. Law of variable proportion is valid when:
(a) Only one input is fixed and all other inputs are kept variable
(b) All factors are kept constant
(c) All inputs are varied in the same proportion
(d) None of these
Answer:
(a) Only one input is fixed and all other inputs are kept variable

87. Production activity in the short period is analysed with the help of:
(a) Law of variable proportion
(b) Laws of returns to scale
(c) Both (a) & (b)
(d) None of the above
Answer:
(a) Law of variable proportion

88. The Law of Variable Proportions is associated with:
(a) Short period
(b) Long period
(c) Both short and long periods
(d) Neither short nor long period
Answer:
(a) Short period

89. The law of variable proportions is drawn under all of the assumptions mentioned below except the assumption that:
(a) The technology is changing.
(b) There must be some inputs whose quantity is kept fixed.
(c) We consider only physical inputs and not economically profitability in monetary terms.
(d) The technology is given and stable.
Answer:

90. Law of increasing returns is ap-plicable because of _____.
(a) Indivisibility of factors.

(b) Specialization.
(c) Economies of scale.
(d) Both (a) &L (b) above.
Answer:
(d) Both (a) &L (b) above.

91. In the first stage of law of variable proportions, total product increases at the _____.
(a) Decreasing rate
(b) Increasing rate
(c) Constant rate
(d) Both (a) and (b).
Answer:
(b) Increasing rate

92. During 2nd stage of law of Dimin-ishing returns:
(a) MP and TP is maximum
(b) MP and AP are decreasing
(c) AP is negative
(d) TP is negative
Answer:
(b) MP and AP are decreasing

93. A rational producer will produce in the stage in which marginal product is positive and :
(a) MP> AP
(b) MP = AP
(c) MP < AP
(d) MP is zero
Answer:
(c) MP < AP

94. Diminishing marginal returns implies:
(a) Decreasing average variable costs
(b) Decreasing marginal costs
(c) Increasing marginal costs
(d) Decreasing average fixed costs
Answer:
(c) Increasing marginal costs

95. The phenomenon of diminishing returns rests upon the _____ of the fixed factor:
(a) Divisibility
(b) Flexibility
(c) Indivisibility
(d) None of these
Answer:
(c) Indivisibility

96. Law of diminishing returns is applicable in:
(a) Manufacturing industry
(b) Agriculture
(c) Neither (a) nor (b)

(d) Any economic activity at a point of time.
Answer:
(d) Any economic activity at a point of time.

97. In the third of the three stages of production:
(a) The marginal product curve has a positive slope.
(b) The marginal product curve lies completely below the average product curve.
(c) Total product increases.
(d) Marginal product is positive.
Answer:
(b) The marginal product curve lies completely below the average product curve.

98. Diminishing marginal returns implies _____
(a) Decreasing average variable costs
(b) Decreasing marginal costs
(c) Increasing marginal costs
(d) Decreasing fixed costs.
Answer:
(c) Increasing marginal costs

99. The "law of diminishing returns" applies to _____.
(a) The short run, but not the long run
(b) The long run, but not the short run
(c) Both the short run and the long run
(d) Neither the short run nor the long run
Answer:
(a) The short run, but not the long run

100. Diminishing returns 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 in-creased in the long run.
(d) When the quantity of the fixed input is increased and returns to the variable input falls.
Use the following information to answer questions 14-16.

Hours of Labour	Total Output	Marginal Product
0	–	–
1	100	100
2	–	80
3	240	–

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

101. The concept of Returns to Scale is related with:
(a) Very short period

(b) Short period
(c) Long period
(d) None of above
Answer:
(c) Long period

102. Increasing returns to scale can be explained in terms of:
(a) External and internal economies
(b) External and internal dis-econo- mies
(c) External economics and internal dis-economies
(d) All of these
Answer:
(a) External and internal economies

103. Increasing returns to scale occurs due to:
(a) Economies of scale
(b) Specialization
(c) Indivisibility of factors
(d) All of these
Answer:
(d) All of these

104. Which of the following statements describes increasing returns to scale?
(a) Doubling of all inputs used leads to doubling of the output.
(b) Increasing the inputs by 50% leads to a 25% increase in output.
(c) Increasing inputs by 1 / 4 leads to an increase in output of 1/3.
(d) None of the above.
Answer:
(c) Increasing inputs by 1 / 4 leads to an increase in output of 1/3.

105. 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 is changed while quantity of all other inputs remain the same
Answer:
(b) All inputs are changed in already established proportion

106. Which of the following is the reason of the working of law of increasing returns?
(a) Fuller utilisation of fixed factors
(b) Indivisibility of the factors
(c) Greater specialization of labour
(d) All of the above
Answer:
(d) All of the above

107. Consider the following combinations of 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 returns to scale
(b) Diminishing returns to scale
(c) Constant returns to scale
(d) Increasing returns initially, fol-lowing by decreasing returns to scale.
Answer:
(c) Constant returns to scale

108. 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
Answer:
(c) Constant returns to scale

109. If decreasing returns to scale are present, then if all inputs are increased by 10% then:
(a) Output will also decrease by 10%.
(b) Output will increase by 10%.
(c) Output will increase by less than 10%.
(d) Output will increase by more than 10%.
Answer:
(c) Output will increase by less than 10%.

109A. In Cobb-Douglas Production function[$Q = KL^aC^b$], there will be increasing returns to scale if :
(a) $a + b > 1$
(b) $a + b = 1$
(c) $a + b = 0$
(d) $a + b < 1$ Answer: (a) $a + b > 1$

110. A change in scale means that _____ factors of production are increased or decreased in the same production.
(a) Two
(b) Three
(c) No
(d) All
Answer:
(d) All

110A. 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 returns to scale
(d) Both increasing and decreasing returns to scale
Answer:
(b) Decreasing returns to scale

111. When output decreases by 20% due to increase in inputs by 20%, this stage is called the
law of _____.
(a) Increasing returns to scale.
(b) Decreasing returns to scale.
(c) Constant returns to scale.
(d) None of the above.
Answer:
(d) None of the above.

111 A. Constant Returns to Scale are also called as _____ Production Function.
(a) Linear
(b) Curvilinear
(c) Linear Homogenous
(d) Curvilinear Homogenous
Answer:
(c) Linear Homogenous

112. With a view to increase his production, Hariharan a manufacturer of shoes, increases all
the factors of production in his unit by 100%. But at the end of the year, he finds that instead
of an increase of 100%, his production has increased by only 80%. Which law of returns to
scale is operating in this case?
(a) Increasing returns to scale
(b) Decreasing returns to scale
(c) Constant returns to scale
(d) None of the above
Answer:
(b) Decreasing returns to scale

112A. When output increase in a smaller proportion with an increase in all inputs _____
returns to scale set in.
(a) Increasing
(b) Decreasing
(c) Constant
(d) Circular
Answer:
(b) Decreasing

113. ISO quants are equal to:
(a) Product Lines
(b) Total utility lines
(c) Cost lines

(d) Revenue lines
Answer:
(a) Product Lines

114. ISO quants are also known as:
(a) Production possibility curves
(b) Indifference curves
(c) Production indifference curves
(d) None of the above
Answer:
(c) Production indifference curves

115. An ISO quant is _____ to an ISO cost line at equilibrium point:
(a) Convex
(b) Concave
(c) Tangent
(d) Perpendicular
Answer:
(c) Tangent

116. An ISO quant shows _____.
(a) All the alternative combinations of two inputs that can be produced by using a given set of output fully and in the best possible way.
(b) All the alternative combinations of two products among which a producer is indifferent because they yield the same profit.
(c) All the alternative combinations of two inputs that yield the same total product.
(d) Both (b) and (c).
Answer:
(c) All the alternative combinations of two inputs that yield the same total product.

117. ISO quants are negatively sloped & _____ to the origin due to _____ Marginal Rate of Tech-nical Substitution (MRTS).
(a) Convex, Increasing
(b) Convex, Decreasing
(c) Concave, Increasing
(d) Concave, Decreasing
Answer:
(b) Convex, Decreasing

118. Which of the following statement is true in relation to an ISO Quant Curve?
(a) It represents those combination of two factors of production that will give the same level of output
(b) It represents those combinations of all the factors that will give the same level of output
(c) It slopes upward to the right
(d) It can tough either axis
Answer:
(a) It represents those combination of two factors of production that will give the same level of output

119. Suppose, the total cost of produc-tion of commodity X is ₹ 1,25,000. Out of this cost implicit cost is ₹ 35,000 and normal profits is ₹ 25,000. What will be the explicit cost of commodity X?
(a) 90,000
(b) 65,000
(c) 60,000
(d) 1,00,000
Answer:
(c) 60,000

120. Which of the following is an example of "explicit cost"?
(a) Convex, Increasing
(b) Convex, Decreasing
(c) Concave, Increasing
(d) Concave, Decreasing
Answer:
(a) Convex, Increasing

121. Which of the following is an example of an "implicit cost"?
(a) Interest that could have been earned on retained earnings used by the firm to finance expansion.
(b) The payment of rent by the firm for the building in which it is housed.
(c) The interest payment made by the firm for funds borrowed from a bank.
(d) The Payment of wages by the firm.
Answer:
(b) The payment of rent by the firm for the building in which it is housed.

122. Implicit cost can be defined as _____.
(a) Money payments made to the non-owners of the firm for the self-owned factors employed in the business and therefore not entered into books of account.
(b) Money not paid out to the owners of the firm for the self owned factors employed in a business and therefore not entered into books of account.
(c) Money payments which the self owned and employed resources could have earned in their next best alternative employment and therefore entered into books of account.
(d) Money payments which the self owned and employed resources earn in their best use and therefore entered into books of ac-count.
Answer:

123. Implicit cost may be defined as the:
(a) Costs which do not change over a period of time
(b) Costs which the firm incurs but doesn't disclose
(c) Payment to the non-owners of the firm for the resources
(d) Money payment which the self employed resources could have earned in their best alternative employment.
Answer:
(d) Money payment which the self employed resources could have earned in their best alternative employment.

124. Which of the following is including in cost of production and is termed as accounting cost?

(a) Wages to workers employed
(b) Prices for the raw materials
(c) Fuel and Power Used
(d) All of these
Answer:
(d) All of these

125. Economic cost excludes which of the following :
(a) Accounting cost + explicit cost
(b) Accounting cost + implicit cost
(c) Explicit cost + Implicit cost
(d) Accounting cost + opportunity cost
Answer:
(a) Accounting cost + explicit cost

126. The cost of resources owned and employed by the entrepreneur himself in his business is termed as _____ cost.
(a) Explicit
(b) Implicit
(c) Fixed
(d) Variable
Answer:
(b) Implicit

127. Cost in terms of pain, discomfort, disability involved in supplying the various factors of production by their owners are termed as _____.
(a) Social cost
(b) Explicit cost
(c) Real cost
(d) Implicit cost
Answer:
(c) Real cost

128. Economic costs of production differ from accounting costs of production because _____.
(a) Economic costs include expenditures for hired resources while accounting costs do not.
(b) Accounting costs include opportunity costs which are deducted later to find paid out costs.
(c) Accounting costs include expenditures for hired resources while economic costs do not.
(d) Economic costs add the opportunity cost of a firm which uses its own resources.
Answer:
(d) Economic costs add the opportunity cost of a firm which uses its own resources.

129. Accounting cost is _____ of Economic cost.
(a) Equal to
(b) Less than
(c) More than
(d) Not Included

Answer:
(b) Less than

130. Economic Costs comprises _____.
(a) Accounting Costs
(b) Implicit Cost
(c) Explicit Cost
(d) Both (a) & (b)
Answer:
(d) Both (a) & (b)

131. Which of the following will be included in implicit Cost?
(a) Normal return on money Capital invested by the entrepreneur himself in his own business.
(b) The wages or Salary not paid to the entrepreneur, but could have earned if the services has been sold somewhere else.
(c) Wages or Salary paid to workers
(d) Both (a) and (b)
Answer:
(d) Both (a) and (b)

132. Accounting Costs are also called as _____ costs whereas the cost of factors owned by the entrepreneur himself and employed in his own busi-ness is called as costs.
(a) Explicit, implicit
(b) Implicit, Explicit
(c) Economic, Non-Economic
(d) Explicit, Non-Economic.
Answer:
(a) Explicit, implicit

133. Outlay Costs involve _____ expenditure of funds on wages, mate-rial, returns interest, etc.
(a) Actual
(b) Expected
(c) Fixed
(d) Planned
Answer:
(a) Actual

134. Outlay costs involve _____ expenditure at some point of time and hence _____ recorded in the books of account.
(a) Financial, are not
(b) Financial, are
(c) Non-Financial, are not
(d) Non- Financial, are
Answer:
(b) Financial, are

135. Opportunity cost is:
(a) Direct cost
(b) Total cost

(c) Accounting cost
(d) Cost of forgone opportunity
Answer:
(d) Cost of forgone opportunity

136. The cost of one thing in terms of alternative given up is known as:
(a) Opportunity Cost
(b) Real Cost
(c) Production Cost
(d) Physical Cost
Answer:
(a) Opportunity Cost

137. If the market price of good is more than the opportunity cost of producing it, then:
(a) The market price of the product will increase in the long run
(b) Producers will increase supply in the long run
(c) Resources will flow away from production of the good, causing supply to decline with the passage of time
(d) The situation will remain unchanged as long as supply and demand remain in balance.
Answer:
(b) Producers will increase supply in the long run

138. 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.
Answer:
(a) Resources have alternative uses

139. Opportunity Cost is:
(a) Marginal cost
(b) Variable cost
(c) Total fixed cost
(d) None of these
Answer:
(d) None of these

140. Opportunity Cost is _____
(a) Recorded in the books of account
(b) Sacrificed alternative
(c) Both (a) and (b)
(d) None of the above
Answer:
(b) Sacrificed alternative

141. The concept of opportunity cost has to be considered whenever :
(a) Resources are scarce
(b) Decision involving choice of one option over other(s) is involved
(c) Both (a) & (b)

(d) Neither (a) nor (b)
Answer:
(c) Both (a) & (b)

142. Opportunity cost is the _____ value that is foregone in choosing one activity over the alternative.
(a) Subjective, other
(b) Subjective, next best
(c) Principal, other
(d) Principal, next best
Answer:
(b) Subjective, next best

143. Opportunity Cost is the cost of the _____ opportunity and involves a comparison between the policy that was _____ and the policy that was _____.
(a) Other, Chosen, Should be chosen
(b) Missed, Chosen, should be chosen
(c) Missed, Chosen, rejected
(d) None of these
Answer:
(c) Missed, Chosen, rejected

144. Direct Cost is also known as :
(a) Indirect Cost
(b) Traceable Cost
(c) Opportunity Cost
(d) Accounting Cost.
Answer:
(b) Traceable Cost

145. _____ costs are the costs that are readily identified and are traceable to a particular product, operations or plant.
(a) Direct Cost
(b) Traceable Cost
(c) Indirect Cost
(d) Both (a) & (b)
Answer:
(d) Both (a) & (b)

146. _____ may vary according to the changes accruing to the product process or machine.
(a) Direct Cost
(b) Implicit-Cost
(c) Indirect Cost
(d) Non Traceable Cost.
Answer:
(a) Direct Cost

147. Indirect Costs are not easily and definitely identifiable in relation to a plants, products, process or department. These are _____ changed to different jobs or products in stan-dard accounting practice.
(a) Not
(b) Never
(c) Nevertheless
(d) Cannot
Answer:
(c) Nevertheless

148. Identify the indirect Cost.
(a) Common cost incurred for general operations
(b) Wages paid to worker
(c) Material Purchased
(d) Commission Paid
Answer:
(a) Common cost incurred for general operations

149. Theoretically, incremental costs are related to the concept of _____.
(a) Marginal Cost
(b) Fixed Cost
(c) Judgmental Cost
(d) Semi Variable Cost.
Answer:
(a) Marginal Cost

150. Which of the following is part of incremental costs?
(a) Change in product line
(b) Replacement of worn-out machinery
(c) Buy a new production facility
(d) All of these
Answer:
(d) All of these

151. _____ refer to those costs which are already incurred once and for all and cannot be recovered.
(a) Sunk Cost
(b) Fixed Cost
(c) Variable Cost
(d) Incremental
Answer:
(a) Sunk Cost

152. Which one of the following is an example of Sunk Cost?
(a) Expenses on advertising
(b) Research & Development Expenditure
(c) Specialized equipment & fixed facilities
(d) All of these.
Answer:
(d) All of these.

153. Which of the following in incurred first?
(a) Historical Cost
(b) Replacement Cost
(c) Realized Value
(d) None of these
Answer:
(a) Historical Cost

154. _____ Cost refers to the cost incurred in the past on the acquisition of a productive asset.
(a) Current Cost
(b) Historical Cost
(c) Future Cost
(d) Desired cost.
Answer:
(b) Historical Cost

155. A Company is willing to change its existing Machinery (5 years old) by a new machinery at a cost of ₹ 10,00,000. The cost of ₹ 10,00,000 may be regarded as:
(a) Historical Cost
(b) Replacement Cost
(c) New Cost
(d) Market Cost
Answer:
(b) Replacement Cost

156. Other things remaining the same, an increase in price will make _____ cost higher than _____ cost.
(a) Historical, Replacement
(b) Replacement, Historical
(c) Historical, reliable
(d) Fixed, Historical.
Answer:
(b) Replacement, Historical

157. Usually in the case of continuous decrease in price of an asset, which one of the following shall be the highest?
(a) Replacement Cost
(b) Historical Cost
(c) Realisable Value
(d) Variable Cost.
Answer:
(b) Historical Cost

158. Private Costs are costs actually incurred or provided for by firms. These may be _____.
(a) Explicit
(b) Implicit
(c) Either (a) or(b)
(d) None of these

Answer:
(c) Either (a) or(b)

159. The Cost of resources for which the firm is not required to pay price is called as
_____ cost.
(a) Fixed
(b) Private
(c) Social
(d) Welfare
Answer:
(c) Social

160. _____ Costs normally figure in business decisions as they Form part of total cost and are inter-nalized by the firm.
(a) Fixed
(b) Private
(c) Social
(d) Welfare
Answer:
(b) Private

161. Which of the following is not a determinant of the firm's cost function?
(a) The production function.
(b) The price of labour.
(c) Taxes.
(d) The price of the firm's output
Answer:
(d) The price of the firm's output

162. Which of the following statements is correct concerning the relationships among the firm's cost functions?
(a) TC = TFC – TVC.
(b) TVC = TFC – TC.
(c) TFC = TC – TVC.
(d) TC = TVC – TFC.
Answer:
(c) TFC = TC – TVC.

163. In the long run all factors are _____.
(a) Fixed
(b) Variable
(c) All factors remain unchanged
(d) None
Answer:
(b) Variable

164. Cost Function is the mathemati-cal relation between _____ of a Product and the various determinants of _____.

(a) Cost, Costs
(b) Revenue, Revenues
(c) Cost, Revenues
(d) Revenue, Costs.
Answer:
(a) Cost, Costs

165. In a cost function, the dependent variable is unit cost or total cost and the independent variable(s)are _____.
(a) Units sold and purchased.
(b) Price of factor, & size of output
(c) Relevant phenomenon which has a bearing on cost like technology, level of capacity utilisation, efficiency, etc.
(d) Both (b) & (c)
Answer:
(d) Both (b) & (c)

166. Cost function is a function which is obtained from _____.
(a) Production Function
(b) Market Supply of inputs
(c) Market Supply of outputs
(d) Both (a) & (b).
Answer:
(d) Both (a) & (b).

167. The Cost function expresses the relationship between _____ and _____.
(a) Costs, input
(b) Costs, Output
(c) Dependent Variable, Cost
(d) None of these
Answer:
(b) Costs, Output

168. Cost Functions are derived from _____ cost data of the firms.
(a) Actual
(b) Expected
(c) Desired
(d) Standard.
Answer:
(a) Actual

169. Which of the following is a kind of Cost function?
(a) Short-Run Cost Function
(b) Long Run Cost Function
(c) Short/Long Run Cost Curve
(d) Both (a) and (b)
Answer:
(d) Both (a) and (b)

170. A company produces 10 units of output and incurs ₹ 30 per unit as variable cost and ₹ 5 per unit of fixed cost. What will be its total cost of producing 10 units₹
(a) ₹ 300
(b) ₹ 35
(c) ₹ 305
(d) ₹ 350
Answer:
(d) ₹ 350

171. What is the total cost of produc-tion of 20 units, if fixed cost ₹ 5,000 and variable cost is ₹ 2/-?
(a) 5,400
(b) 5,040
(c) 4,960
(d) 5,020
Answer:
(d) 5,020

172. Suppose 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 costs only.
(c) Increase due to an increase in both fixed and variable costs.
(d) Decrease if the firm is in the region of diminishing returns.
Answer:
(b) Increase due to an increase in variable costs only.

173. Calculate total cost of 4 units :

Units	Total cost (₹)	Marginal cost (₹)
2	80	40
4	–	30

(a) 140
(b) 120
(c) 50
(d) 40
Answer:
(a) 140

174. Calculate total cost of 4 units :

Output	0	10	20
Total cost	₹ 200	₹ 400	₹ 800

(a) ₹ 40
(b) ₹ 20
(c) ₹ 200
(d) ₹ 400

Answer:
(b) ₹ 20

175. _____ Costs do not change with changes in Output.
(a) Fixed
(b) Valuable
(c) Semi Valuable
(d) Both (a) & (b)
Answer:
(a) Fixed

176. If fixed cost is plotted on a graph taking output on X-axis and Cost on Y axis, the Fixed cost will be represented by _____.
(a) Straight line parallel to Y axis
(b) Straight line parallel to X axis
(c) U Shaped Curve
(d) Hyper-parabola Curve.
Answer:
(b) Straight line parallel to X axis

177. Fixed costs are _____ a function of output.
(a) Not
(b) Always
(c) Treated as
(d) Directly related
Answer:
(a) Not

178. Fixed costs may also be called as:
(a) Inescapable
(b) Uncontrollable
(c) Constant
(d) All of the above
Answer:
(d) All of the above

179. Fixed cost curve normally:
(a) Starts from the origin
(b) Is U shaped
(c) Is vertical line
(d) Is horizontal line.
Answer:
(d) Is horizontal line.

180. The vertical difference between TVC and TC curves is equal to:
(a) MC
(b) AVC
(c) TFC

(d) None of the above
Answer:
(c) TFC

181. What will be the TVC if we produce 2 units?

Units	0	1	2
Total cost	20	37	50

(a) 15
(b) 05
(c) 17
(d) 30
Answer:
(d) 30

182. A firm producing 9 units of output has an average total cost of f 200 and has to pay ₹ 630 to its fixed cost of production. How much of the average total cost is made up of variable cost?
(a) ₹ 150
(b) ₹ 130
(c) ₹ 70
(d) ₹ 300
Answer:
(b) ₹ 130

183. Which cost increases continuously with the increase in production?
(a) Average cost.
(b) Marginal cost.
(c) Fixed cost.
(d) Variable cost.
Answer:
(d) Variable cost.

184. Total cost in the short run is clas-sified into fixed costs and variable costs. Which one of the following is a variable cost?
(a) Cost of raw materials.
(b) Cost of equipment.
(c) Interestpaymentonpastborrow- ings.
(d) Payment of rent on building.
Answer:
(a) Cost of raw materials.

185. Which of the following is a vari-able cost in the short run₹
(a) Rent of the factory.
(b) Wages paid to the factory labour.
(c) Interest payments on borrowed financial capital.
(d) Payment on the lease for factory equipment.

Answer:
(b) Wages paid to the factory labour.

186. What will be the TVC if we pro-duce 2 units?

Units	0	1	2	3	4
Total cost	20	30	40	45	50

(a) 2
(b) 3
(c) 4
(d) 5
Answer:
(d) 5

187. If a Firm shuts down for a short period, it will not incur any _____ cost.
(a) Fixed
(b) Semi-Variable
(c) Variable
(d) Both (a) & (b)
Answer:
(c) Variable

188. _____ are those costs which change with changes in output.
(a) Fixed
(b) Semi-Variable
(c) Variable
(d) Both (a) & (b)
Answer:
(c) Variable

189. Semi-Variable Costs are _____ Variable, _____ fixed in relation to the changes in the size of output.
(a) Neither, nor
(b) Neither, nor absolutely
(c) Absolutely, but relatively
(d) Absolutely, but is by nature.
Answer:
(b) Neither, nor absolutely

190. Electricity charges include both a fixed charge and a charge based on consumption. It should be classified as _____.
(a) Fixed Cost
(b) Variable Cost
(c) Semi-Variable Cost
(d) Quasi Cost.
Answer:
(c) Semi-Variable Cost

191. The Semi-Variable Cost: _____
(a) Remains Constant
(b) Remains variable proportionately
(c) Increases in stair-step fashion
(d) Increases proportionately
Answer:
(c) Increases in stair-step fashion

192. Which of the following cost remains fixed over certain range of output but suddenly jump to a new higher level when output goes beyond a given limit?
(a) Total Fixed cost
(b) Total Variable Cost
(c) Both (a) & (b)
(d) Semi-Variable Cost
Answer:
(d) Semi-Variable Cost

193. The total Cost Curve is obtained by adding _____ the _____ curve and the Curve.
(a) Vertically, Total Fixed Cost, Total Variable Cost
(b) Horizontally, Cost, Total
(c) Vertically, Total Cost, Total Vari-able cost
(d) Horizontally, Cost Valuable
Answer:
(a) Vertically, Total Fixed Cost, Total Variable Cost

194. The costs which remain fixed over certain range of output but sud-denly jump 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.
Answer:
(c) Stair – step variable cost

195. Average fixed cost can be obtained through:
(a) AFC = $TFCTS$
(b) AFC = $ECTU$
(c) AFC = $TCPC$
(d) AFC = $TFCTU$
Answer:
(d) AFC = $TFCTU$

196. Which one of the following is correct?
(a) AFC = AVC + ATC
(b) ATC = AFC – AVC
(c) AVC = AFC + ATC
(d) AFC = ATC – AVC

Answer:
(d) AFC = ATC – AVC

197. Which of the following cost curves is never 'U' shaped?
(a) Average total cost curve
(b) Marginal cost curve
(c) Total cost curve
(d) Total Fixed cost curve
Answer:
(d) Total Fixed cost curve

198. AFC curve is :
(a) Convex & downward sloping
(b) Concave & downward sloping
(c) Convex & upward sloping
(d) Concave & upward rising
Answer:
(a) Convex & downward sloping

199. Which of the following curves never tough any axis but is downward _____.
(a) Marginal cost curve
(b) Total cost curve
(c) Average fixed cost curve
(d) Average variable cost curve
Answer:
(c) Average fixed cost curve

200. The slope of Average Fixed cost curve is?
(a) Falls from left to right
(b) Rises from left to right
(c) Parallel to x-axis
(d) Parallel to y-axis
Answer:
(a) Falls from left to right

201. When the output of a firm increase in the short run, its average fixed cost.
(a) Increases
(b) Decreases
(c) Remains constant
(d) First declines and then rises.
Answer:
(b) Decreases

202. Which statement among below is correct in reference in Average Fixed Cost.
(a) Never becomes zero
(b) Curve never touches x-axis
(c) Curve never touches y-axis
(d) All of the above
Answer:
(d) All of the above

203. Average fixed cost curve is always:
(a) Declining when output increases
(b) U-Shaped, if there are increasing returns to scale
(c) U-Shaped, if there are decreasing returns to scale
(d) Intersected by marginal cost at its minimum point
Answer:
(a) Declining when output increases

204. Which of the following curves never touch any axis but is downward.
(a) Marginal cost curve
(b) Total cost curve
(c) Average fixed cost curve
(d) Average variable cost curve
Answer:
(c) Average fixed cost curve

205. A firm's average fixed cost is ₹ 20 at 6 units of output. What will it be at 4 units of output?
(a) ₹ 60
(b) ₹ 30
(c) ₹ 40
(d) ₹ 20
Answer:
(b) ₹ 30

206. A firm's average fixed cost is ₹ 40 at 12 units. What will be the average fixed cost at 8 units:
(a) ₹ 60
(b) ₹ 70
(c) ₹ 90
(d) ₹ 80
Answer:
(a) ₹ 60

207. A firms AFC is ₹ 200 at 10 units of output what will be it at 20 units of output?
(a) 500
(b) 100
(c) 150
(d) 200
Answer:
(b) 100

208. Average cost of producing 50 units of any commodity is ₹ 250 and fixed cost is ₹ 1,000. What will be the average fixed cost of producing 100 units of the commodity?
(a) ₹ 10
(b) ₹ 30
(c) ₹ 20
(d) ₹ 05

Answer:
(a) ₹ 10

209. Average Fixed Cost = ₹ 20
Quantity Produced =10 units
What will be the Average Fixed Cost of 20th unit?
(a) ₹ 10
(b) ₹ 20
(c) ₹ 5
(d) None
Answer:
(a) ₹ 10

210. Find AFC of 3 units :

Units	0	1	2	3
Total cost	15	25	35	45

(a) 5
(b) 10
(c) 15
(d) 25
Answer:
(a) 5

211. What will be the AFC of 2 units according to the table given below:

Units	0	1	2
Total cost (in ₹)	580	689	850

(a) 105
(b) 135
(c) 235
(d) 290
Answer:
(d) 290

212. A firm producing 7 units of output has an average total cost of ₹ 150 and has to pay ₹ 350 to its fixed factors of production whether it produces or not. How much of the average total cost is made up of variable costs?
(a) ₹ 200
(b) ₹ 50
(c) ₹ 300
(d) ₹ 100
Answer:
(d) ₹ 100

213. Consider the following data

Units	0	1	2	3	4
Total cost	25	45	60	85	105

The Average Variable Cost (AVC) for an output of 4 units will be:
(a) ₹ 20
(b) ₹ 35
(c) ₹ 25
(d) ₹ 26
Answer:
(a) ₹ 20

214. A firm produces 10 units of a commodity at an average total cost of ₹ 200 and with a fixed cost of ₹ 500. Find out the component of average variable cost in the total cost:
(a) ₹ 300
(b) ₹ 200
(c) ₹ 150
(d) ₹ 100
Answer:
(a) ₹ 300

215. A firm producing 15 units of output has average cost of ₹ 250 and ₹ 125 as per unit cost for fixed factors of production. Then average variable cost will be _____.
(a) 180
(b) 150
(c) 125
(d) None of the above
Answer:
(a) 180

216. 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)
Answer:
(a) AFC will be positive

217. Which of the following statements is true of the relationship among the average cost functions?
(a) ATC = AFC – AVC.
(b) AVC = AFC + ATC.
(c) AFC = ATC + AVC.
(d) AFC = ATC – AVC.
Answer:
(d) AFC = ATC – AVC.

218. A firm has a variable cost of ₹ 1000 at 5 units of output. If fixed costs are ₹ 400, what will be the average total cost at 5 units of output?
(a) ₹ 280
(b) ₹ 60
(c) ₹ 120
(d) ₹ 1400
Answer:
(a) ₹ 280

219. U-shaped average cost curve is based on:
(a) Law of increasing cost
(b) Law of decreasing cost
(c) Law of constant returns to scale
(d) Law of variable proportions
Answer:
(d) Law of variable proportions

220. A firm producing 7 units of output has an average total cost of ₹ 150 and has to pay ₹ 350 to its fixed factors of production. How much of the average total cost is made up of variable cost?
(a) ₹ 200
(b) ₹ 50
(c) ₹ 300
(d) ₹ 100
Answer:
(d) ₹ 100

221. Marginal cost is defined as:
(a) The change in total cost due to a one unit change in output.
(b) Total cost divided by output.
(c) The change in output due to a one unit change in an input.
(d) Total product divided by the quantity of input.
Answer:
(a) The change in total cost due to a one unit change in output.

222. The change in total cost due to one unit change in the output is called _____ cost.
(a) Marginal
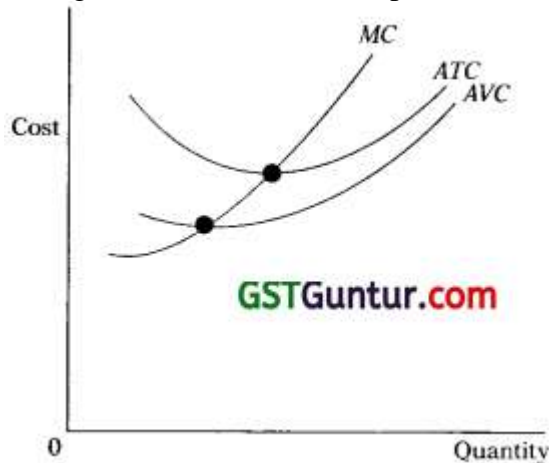(b) Average
(c) Average variable
(d) Average fixed.
Answer:
(a) Marginal

223. Marginal cost changes due to change in _____ cost.
(a) Total
(b) Fixed
(c) Average
(d) Variable
Answer:
(d) Variable

224. In figure below, possible reason why the average variable cost curve approaches the average total cost curve as output rises is:

(a) Fixed costs are falling while total costs are rising at rising output.
(b) Total costs are rising and average costs are also rising.
(c) Marginal costs are above average variable costs as output rises.
(d) Average fixed costs are falling as output rises.
Answer:
(d) Average fixed costs are falling as output rises.

225. MC curve of a firm in a perfectly competitive industry depicts?
(a) Demand curve
(b) Supply curve
(c) Average cost curve
(d) Total cost curve
Answer:
(b) Supply curve

226. 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 these
Answer:
(c) Must be rising

227. With which of the following is the concept of marginal cost closely related?
(a) Variable cost.
(b) Fixed cost.
(c) Opportunity cost.
(d) Economic cost.
Answer:
(a) Variable cost.

228. What will be marginal cost of 67 units of production accounting to the table given below:

Units of production	0	10	25	3	67
Total cost		160	200	300	500	1,400

(a) 10
(b) 20
(c) 30
(d) 50
Answer:
(c) 30

229. On the basis of the following data what will be the marginal cost of the 6th unit of output?

Output	0	1	2	3	4	5	6
Total cost (in ₹)	240	330	410	480	540	610	690

(a) ₹ 133
(b) ₹ 75
(c) ₹ 80
(d) ₹ 450
Answer:
(c) ₹ 80

230. Solve question no. 77 given below the following table:

Output (Units)	TFC (in ₹)	TVC (in ₹)	MC (in ₹)
0	500	–	–
1	500	400	400
5	500	1600	–

What will be marginal cost, when output is 5 units?
(a) 300
(b) 400
(c) 500
(d) 600
Answer:
(a) 300

231. Marginal cost changes due to changes in _____.
(a) Total cost
(b) Average cost
(c) Variable cost
(d) Quantity of output
Answer:
(c) Variable cost

232. Which of the following statements is correct?
(a) Fixed costs vary with change in output.
(b) If we add total variable cost and total fixed cost we get the average cost.
(c) Marginal cost is the result of total cost divided by number of units produced.
(d) Total cost is obtained by adding up the fixed cost and total variable cost.
Answer:
(d) Total cost is obtained by adding up the fixed cost and total variable cost.

233. If total cost at 10 units is ₹ 600 and ₹ 640 for 11th unit. The marginal cost of 11th unit is:
(a) ₹ 20
(b) ₹ 30
(c) ₹ 40
(d) ₹ 50
Answer:
(c) ₹ 40

234. AT 10 units Total Cost – ₹ 200
20 units Total Cost – 600
Marginal Cost = ?
(a) 50
(b) 40
(c) 30
(d) 400
Answer:
(b) 40

235. The total cost incurred for 10 units is ₹ 400 and 20 units is ₹ 800. Find the marginal cost.
(a) ₹ 400
(b) ₹ 40
(c) ₹ 200
(d) ₹ 20
Answer:
(b) ₹ 40

236. Which of the following statements is correct?
(a) When the average cost is rising, the marginal cost must also be rising.
(b) When the average cost is rising, the marginal cost must be falling.
(c) When the average cost is rising, the marginal cost is above the average cost.
(d) When the average cost is falling, the marginal cost must be rising.
Answer:
(c) When the average cost is rising, the marginal cost is above the average cost.

237. When AC curve is rising, the MC curve must be _____ to it.
(a) Equal
(b) Above
(c) Below
(d) Parallel
Answer:
(b) Above

238. What happens to marginal cost when average cost increases?
(a) Marginal cost is below average cost
(b) Marginal cost is above average cost
(c) Marginal cost is equal to average variable cost
(d) Marginal cost is equal to average cost
Answer:
(d) Marginal cost is equal to average cost

239. When AC Curve is at minimum then MC Curve is _____?
(a) Minimum then AC Curve
(b) Equals to AC Curve
(c) Above AC Curve
(d) Less than AC Curve
Answer:
(b) Equals to AC Curve

240. Which of the following statement is incorrect?
(a) AC is sloping downwards, MC is below AC
(b) AC is sloping downwards, MC must fall
(c) AC is sloping upwards, MC is above AC
(d) MC cuts AC from its lowest point.
Answer:
(b) AC is sloping downwards, MC must fall

241. Which of the following is true of the relationship between the marginal cost function and the average cost function?
(a) If MC is greater than ATC, then ATC is falling.
(b) The ATC curve intersects the MC curve at minimum MC.
(c) The MC curve intersects the ATC curve at minimum ATC.
(d) If MC is less than ATC, then ATC is increasing.
Answer:
(c) The MC curve intersects the ATC curve at minimum ATC.

242. If LAC curve falls as output expands, this is due to :
(a) Law of diminishing returns
(b) Economics of scale
(c) Law of variable proportion
(d) Dis-economics of scale
Answer:
(b) Economics of scale

243. Planning curve is related to which of the following?
(a) Short run average cost curve
(b) Long run average cost curve
(c) Average variable cost
(d) Average total cost
Answer:
(b) Long run average cost curve

244. Which of the following is known as Envelope curve?
(a) Marginal Cost Curve
(b) Average Fixed Cost Curve
(c) Long Run Average cost Curve
(d) Total Fixed Cost Curve
Answer:
(c) Long Run Average cost Curve

245. 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 long-run average cost 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.
Answer:
(c) The short-run cost curve at the minimum point of the long-run average cost curve represents the least-cost plant size for all levels of output.

246. The negatively-sloped (i.e. falling) part of the long-run average total cost curve is due to which of the following?
(a) Diseconomies of scale.
(b) Diminishing returns.
(c) The difficulties encountered in coordinating the many activities of a large firm.
(d) The increase in productivity that results from specialization.
Answer:
(d) The increase in productivity that results from specialization.

247. A firm's long-run average total cost curve is.
(a) Identical to its long-run marginal- cost curve as all factors are variable.
(b) Also its long-run total cost curve because it explains the relationship cost and quantity supplied in the long run.
(c) In fact the average total cost curve of the optimal plant in the short run as it tries to produce at least cost.
(d) Tangent to all short-run average total cost the curves and represents the lowest average total cost for producing each level of output.
Answer:
(d) Tangent to all short-run average total cost the curves and represents the lowest average total cost for producing each level of output.

248. The positively sloped (rising) part of the long run average cost curve indicates working of the _____.
(a) Diseconomies of scale
(b) Increasing returns to scale
(c) Constant returns to scale
(d) Economies of scale
Answer:
(a) Diseconomies of scale

249. External economies accrue due to _____:
(a) Increasing returns to scale
(b) Increasing returns to factor
(c) Law of variable proportion
(d) Low cost
Answer:
(a) Increasing returns to scale

250. 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
Answer:
(a) Growth of ancillary industries

251. External economies can be achieved through:
(a) Foreign trade only
(b) Superior managerial skill
(c) Extension of transport and credit facilities
(d) External assistance
Answer:
(c) Extension of transport and credit facilities

252. Economies of scale exist because as a firm increases its size in the long run:
(a) Labour and management can specialize in their activities more.
(b) As a larger input buyer, the firm can get finance at lower cost and purchase inputs at a lower per unit cost.
(c) The firm can afford to employ more sophisticated technology in production.
(d) All of these.
Answer:
(d) All of these.

253. External Economies of Scale are obtained by:
(a) A firm
(b) A group of firm
(c) Small Production
(d) Society
Answer:
(b) A group of firm

254. External economics are enjoyed:
(a) By large producers only
(b) As firm expands
(c) Both (a) and (b)
(d) None of the above
Answer:
(c) Both (a) and (b)

255. Issue requiring decision making in the context of business are:
(a) How much should be the optimum output at what price should the firm sell?
(b) How will the product be placed in the market?
(c) How to combat the risks and uncertainties involved?
(d) All of the above
Answer:
(d) All of the above

256. Long run price is also called by the name of _____.
(a) Market price
(b) Normal price
(c) Administered price
(d) Wholesale price.
Answer:
(b) Normal price

257. Which of the following equa¬tion represents profit maximization condition?
(a) MC = MR
(b) MC > MR
(c) MC < MR
(d) None
Answer:
(a) MC = MR

258. Which of the following statements is true?
(a) Accumulation of capital depends solely on income of individuals.
(b) Savings can be influenced by government policies.
(c) External economies go with size and internal economies with loca¬tion.
(d) The supply curve of labour is an upward slopping curve.
Answer:
(b) Savings can be influenced by government policies.

259. Supply curve remaining un-changed, an increase in demand will lead to.
(a) A fall in price
(b) A rise in price
(c) No change in price
(d) AN increase in supply
Answer:
(a) A fall in price

260. Price of a commodity is best expressed as _____.
(a) Exchange value
(b) Cost of goods sold
(c) Production cost
(d) Nominal value
Answer:
(b) Cost of goods sold

261. 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
Answer:
(b) Average variable cost

262. Which of the following statements is incorrect?
(a) The LAC curve is also called the planning curve of a firm.
(b) Total revenue = price per unit X number of units sold.
(c) Opportunity cost is also called alternative cost.
(d) If total revenue is divided by the number of units sold we get marginal revenue.
Answer:
(d) If total revenue is divided by the number of units sold we get marginal revenue.

263. Average Revenue Curve is also known as _____.
(a) Profit curve
(b) Demand curve
(c) Supply curve
(d) Average cost curve
Answer:
(b) Demand curve