

MIRCHI QUESTIONS

CA FOUNDATION

BUSINESS ECONOMICS

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CH 3.2 COSTS

By

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NOTE / ATTENTION:

**THE QUESTION SET IS PREPARED LOOKING
AT MTP OF ICAI JUNE 2024.**

**ONCE YOU ARE DONE WITH ICAI MODULE QUESTIONS & CLASS
NOTES OF YOUR RESPECTED TEACHERS**

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**YOU FIND SOME TIME TO ATTEMPT THIS THEN ONLY TRY TO
SOLVE THIS QUESTION SET.**

1. Relationships between economic variables can be expressed in the form of
 - a. a graph.
 - b. an equation.
 - c. a table.
 - d. any of the above.

2. The optimal solution to a problem is best defined as the solution that
 - a. is superior to any other possible solution.
 - b. costs less than any other possible solution.
 - c. generates more revenue than any other possible solution.
 - d. corresponds to the inflection point on a total product or total cost curve.

3. Differential calculus can be used to solve problems in cases where economic relationships are expressed in the form of
 - a. a graph.
 - b. a table.
 - c. an equation.
 - d. any of the above.

4. Average cost is defined as
 - a. total cost divided by marginal cost.
 - b. total cost divided by total output.
 - c. total output times cost per unit.
 - d. total output times marginal cost.

5. The marginal cost when output = 10 is equal to
 - a. the slope of a line drawn tangent to the total cost curve where output = 10.
 - b. the total cost of 10 units of output divided by 10.
 - c. the average cost of 10 units of output.
 - d. the slope of a ray drawn from the origin to the point on the total cost curve where output = 10.

6. If a firm's total revenue function is a straight line that begins at the origin, then
 - a. marginal revenue is zero.
 - b. average revenue is zero.
 - c. **marginal revenue is equal to average revenue.**
 - d. all of the above are true.

7. If marginal revenue is equal to zero, then
 - a. total revenue is zero.
 - b. average revenue is zero.
 - c. **total revenue is at a maximum or a minimum**
 - d. average revenue is at a maximum or a minimum.

8. If average cost is at a minimum, then
- a. **it is equal to marginal cost.**
 - b. total cost is also at a minimum.
 - c. profit is at a maximum.
 - d. all of the above are true.
9. The level of output where a straight line drawn from the origin is tangent to the total cost curve is where
- a. total cost is at a minimum.
 - b. **average cost is equal to marginal cost.**
 - c. profit is at a maximum.
 - d. all of the above are correct.
10. The economic concept that corresponds most closely to a "derivative" in calculus is the concept of
- a. **an average value.**
 - b. a total value.
 - c. a marginal value.
 - d. economic profit.
11. The marginal principle asserts that, in general, when net benefit is maximized
- a. total benefit will be equal to total cost.
 - b. average benefit will be equal to average cost.
 - c. marginal benefit will be equal to marginal cost.
 - d. average cost will be above total cost but below average benefit.
12. When total revenue is at a maximum
- a. average revenue is at a maximum.
 - b. marginal revenue is at a maximum.
 - c. average revenue is equal to zero.
 - d. none of the above is correct.
13. If both average cost (AC) and marginal cost (MC) are U shaped, then
- a. AC will reach a minimum at a level of output that is less than that at which MC reaches a minimum.
 - b. the total cost curve will be a straight line.
 - c. AC will reach a minimum at a level of output that is greater than that at which MC reaches a minimum.
 - d. both AC and MC will reach a minimum at the same level of output.
14. If a firm's marginal revenue is greater than its marginal cost, then the firm should

- a. increase output to increase profit.
- b. decrease output to increase profit.
- c. keep output the same.
- d. collect additional information before taking any action.

15. If a firm's average cost is equal to its average revenue, then

- a. profit is at a maximum.
- b. profit is at a minimum.
- c. profit is equal to zero.
- d. the firm is in equilibrium.

16. The inflection point refers to the point on a total cost curve where

- a. average cost is at a minimum.
- b. average cost is at a maximum.
- c. marginal cost is at a minimum.
- d. marginal cost is at a maximum.

17. If an average curve has a negative slope, then the corresponding

- a. marginal curve is below the average curve.**
- b. total curve has a negative slope.
- c. marginal curve is above the average curve.
- d. total curve has a positive slope.

18. If a firm's total cost curve is defined by a straight line that has a positive intercept that is equal to fixed costs, then

- a. average cost is equal to marginal cost for all levels of output.
- b. average cost is negatively sloped and marginal cost is horizontal.
- c. both average cost and marginal cost are negatively sloped, but they are not equal to each other.
- d. both average cost and marginal cost are horizontal, and average cost is below marginal cost at all levels of output.

19. If a firm is producing a level of output where marginal cost is equal to marginal revenue, then

- a. profit is at a maximum if marginal cost has a negative slope and marginal revenue is horizontal.
- b. profit is at a minimum if marginal cost has a negative slope and marginal revenue is horizontal.
- c. profit is at a maximum if average revenue is less than average cost.
- d. profit is at a minimum if average revenue is greater than average cost.

20. The optimal amount of pollution to society is where

- a. the total cost of pollution is equal to zero.
- b. the total benefit of pollution is equal to zero.

- c. the marginal benefit of pollution equals the marginal cost of pollution.
- d. there is no pollution at all.

Answer key

1	D	6	C	11	C	16	C
2	A	7	C	12	D	17	A
3	C	8	A	13	C	18	B
4	B	9	B	14	A	19	B
5	A	10	A	15	C	20	C

HINTS:

19. B. Perfect Competition