

CA Foundation – New Syllabus
Business Economics

Chapter 3
Theory of Production & Cost

MCQ Compiler by MVSIR

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CA Foundation
New Syllabus

MCQ Compiler

Chapter 3

UNIT 1	
Basics of Production	
ICAI SM	
1	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.
ICAI SM	
2	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.
MTP Aug 18, SEQ	
3	Production may be defined as an act of _____ a) creating utility b) earning profit c) destroying utility d) providing services
MTP Oct 18 Apr 19 Oct 20	
4	Which of the following is considered production in Economics? a) Teaching Economics to CA students in class. b) Singing a song before friends. c) Flying kite for pleasure d) Teaching concept of Economics to friends in a library.
Factors of Production – Land	
MTP Nov 23, SEQ, ICAI SM	
5	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 depend on human effort d) It is produced by our forefathers.
MTP Apr 23	
6	Which of the following is not the characteristic of land: a) It is a passive factor b) It has multiple uses c) It's supply is fixed d) It is a active factor
PYQ Jun 22	
7	'Land is heterogeneous' implies which of the following? a) Two lands are alike b) Two lands are not alike c) Two lands are fixed d) Two lands are mobile
Factors of Production – Labour	
MTP Mar 19	
8	Which of the following is not the characteristic of Labour? a) Labour is highly 'Perishable' in the sense that a day's labour lost cannot be completely recovered b) Labour is inseparable from the labourer himself c) Labour has a strong bargaining power d) The supply of labour and wage rate are directly related in the initial stages

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Factors of Production - Capital	
MTP Apr 19	
9	Capital is a : a) Stock concept b) Flow Concept c) Both (a) and (b) d) None of the above
ICAI SM	
10	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 location. d) The supply curve of labour is an upward sloping curve.
MTP Apr 19	
11	Which of the following is not included in the stages of capital formation? a) Savings b) Mobilisation of Income c) Mobilisation of saving d) Investment
MTP Mar 19	
12	Which of the following statements is incorrect? a) The services of doctors, lawyers, teachers etc. are termed as production b) Man cannot create matter c) Accumulation of capital does not depend solely on income d) None of the above
MTP Apr 19, ICAI SM	
13	Which of the following is a function of an entrepreneur? a) Initiating a business enterprise. b) Risk bearing. c) Innovating. d) All of the above.
MTP May 20, Mar 22, Apr 23, ICAI SM	
14	Most important function of entrepreneur is to _____ a) Innovate b) Bear the sense of responsibility c) Finance d) Earn profit
ICAI SM	
15	An entrepreneur _____ foreseeable risks such as fire, theft, etc. as these can be insured against a) needs to bear b) need not bear c) (a) or (b) d) None of the above
MTP Nov 22	
16	Which is not the function of an entrepreneur? a) Initiating a business enterprise and resource co-ordination b) Risk bearing or uncertainty bearing c) Innovation d) Mobilisation of savings

A.Q.	
17	Which one of the following is not a national objective of an enterprise? a) To provide fair deal to the employees at different levels. b) To remove inequality of opportunities & provide fair opportunity to all to work and to progress. c) To produce according to national priorities. d) To help the country become self reliant & avoid dependence on other nations.
A.Q.	
18	An enterprise has social objectives as- a) It has to make profit from the society. b) It lives in society & it cannot grow unless it meets the needs of the society. c) It has a separate legal identity. d) None of these
A.Q.	
19	Human objectives of an enterprise are- a) To provide fair deal to the employees at different levels. b) To develop new skills and abilities and provide a work climate in which they will grow mature. c) Only (A) d) Both (A) and (B)
A.Q.	
20	Which of the following is not a problem of an enterprise? a) Problem relating to location & size. b) Problem of making huge profit. c) Problem relating to finance. d) Problem relating to organizational structure.
MTP Dec 22, A.Q.	
21	After identifying the market, the enterprise has to make decision regarding 4 Ps. Which one of the following is not one of these 4 Ps. a) Promotion b) Place c) People d) Product
Production Function	
ICAI SM	
22	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.

SEQ	
23	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) Shows the maximum output that can be produced with a given amount of inputs with available technology d) Shows labour force which is employed	
ICAI SM	
24	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 utility created by it. d) Relationship between quantity of output produced and time taken to produce the output.	
ICAI SM	
25	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	
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PYQ Jun 23	
26	Technological relationship between inputs & output.
a) Production function b) Marketing c) Supply function d) Social function	
ICAI SM	
27	The production function is a relationship 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.	
MTP Mar 22	
28	What are the main assumption of Production Function:
a) Relationship between inputs and output exists for a specific period of time b) There is a given state of the art in production Technology. c) Input consideration Included in a particular function output resulting from their utilization is at the maximum level. d) All the above	
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Short Run Vs Long Run	
ICAI SM	
29	The short run, as economists use the phrase, is characterized by:
a) at least one fixed factor of production and firms neither leaving nor entering the industry. b) generally a period which is shorter than one year. c) all factors of production are fixed and no variable inputs. d) all inputs are variable and production is done in less than one year	
ICAI SM	
30	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 equipment efficiently.	
SEQ, ICAI SM	
31	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	
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MTP Mar 21, Nov 23, ICAI SM, June 24	
32	Laws of production does not include _____
a) returns to scale. b) law of diminishing returns to a factor. c) law of variable proportions. d) least cost combination of factors.	
ICAI SM	
33	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.	
A.Q.	
34	In the long run which factor of production is fixed?
a) Labour b) Capital c) Building d) None of these	
MTP Oct 19	
35	Long run production function related to-
a) Returns to a factor b) Returns to scale c) Both a and b d) None of these	

PYQ Jun 23
36 Returns to scale occurs due to _____
a) Small run
b) Long run
c) Very-small run
d) undetermined

Law of Variable Proportion

ICAI SM
37 Identify the correct statement:
a) The average product is at its maximum 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.

MTP Mar 18, ICAI SM

38 The marginal product of a 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 input.
c) the additional output resulting from a one unit increase in both the variable and fixed inputs.
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.

ICAI SM
39 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

MTP Apr 23

40 In law of variable proportion how many stages are there:
a) 1
b) 3
c) 5
d) None of these

ICAI SM

41 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.

MTP Oct 19, ICAI SM
42 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 increased 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 43 - 45

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

MTP Mar 18, ICAI SM

43 What is the total output when 2 hours of labour are employed?
a) 80
b) 100
c) 180
d) 200

MTP Mar 18, ICAI SM

44 What is the marginal product of the third hour of labour?
a) 60
b) 80
c) 100
d) 240

MTP Mar 18, ICAI SM
45 What is the average product of the first three hours of labour?
a) 60
b) 80
c) 100
d) 240

ICAI SM

46 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.

MTP Aug 18, ICAI SM

47 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

ICAI SM

48 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.

ICAI SM

The production process described below exhibits

Number of Workers	Output
0	0
1	23
2	40
3	50

- 49
- constant marginal product of labour.
 - diminishing marginal product of labour.
 - increasing return to scale.
 - increasing marginal product of labour

ICAI SM

50 In the short run, the firm's product curves show that

- Total product begins to decrease when average product begins to decrease but continues to increase at a decreasing rate
- When marginal product is equal to average product, average product is decreasing but at its highest.
- When the marginal product curve cuts the average product curve from below, the average product is equal to marginal product.
- In stage two, total product increases at a diminishing rate and reaches maximum at the end of this stage

ICAI SM

51 Average product is defined as

- total product divided by the total cost.
- total product divided by marginal product.
- total product divided by the number of units of variable input.
- marginal product divided by the number of units of variable input.

ICAI SM

52 Which of the following statements is true?

- After the inflection point of the production function, a greater use of the variable input induces a reduction in the marginal product.
- Before reaching the inevitable point of decreasing marginal returns, the quantity of output obtained can increase at an increasing rate.
- The first stage corresponds to the range in which the AP is increasing as a result of utilizing increasing quantities of variable inputs.
- All the above.

ICAI SM, MTP Mar 21

53 Marginal product, mathematically, is the slope of the

- total product curve.
- average product curve.
- marginal product curve.
- implicit product curve

ICAI SM

54 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:

- 50
- 100
- 150
- 200

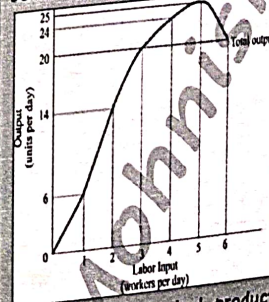
ICAI SM

55 Diminishing marginal returns for the first four units of a variable input is exhibited by the total product sequence:

- 50, 50, 50, 50
- 50, 110, 180, 260
- 50, 100, 150, 200
- 50, 90, 120, 140

ICAI SM

56 Use the following diagram to answer the question given below it



56 The marginal physical product of the third unit of labour is ___ the MP of the ___ labour is Negative

- Six; fourth
- Six; third
- Six; fifth
- Six; sixth

ICAI SM

57 In the third of the three stages of production:

- the marginal product curve has a positive slope.
- the marginal product curve lies completely below the average product curve.
- total product increases.
- marginal product is positive.

A.Q.

58 Law of diminishing returns to scale is relevant to

- Short period
- Long period
- Market period
- None of these

A.Q.

59 In second stage of the Law of Variable Proportion-

- MP diminishes & AP increases
- AP diminishes but MP increases
- Both MP& AP diminish
- Both MP& AP increase

A.Q.

Match List I with List II and choose the correct answer using the codes given below

LIST I	
A	MP is larger than AP
B	MP is equal to AP
C	MP is smaller than AP

LIST 2	
I.	AP is at its maximum
II.	AP is falling
III.	AP is rising

Codes:	a	b	c
(A)	I	II	III
(B)	III	I	II
(C)	II	III	I
(D)	III	II	I

MTP Apr 21

61 Production function in short run is called:

- Production possibility frontier
- Return to Scale
- Laws of variable
- None of these

MTP Oct 20, ICAI SM

62 Which one of the following is not an assumption of law of variable proportion?

- Technology of production remains unchanged.
- Only physical inputs & output are considered.
- All units of variable factors are different.
- There must be some inputs whose quantity is kept fixed

Extra MCQ

63 Stage 2 of law of variable proportion ends when _____

- AP is maximum
- TP is maximum
- MP is zero
- Both (b) & (c)

MTP Mar 21, June 24

64 The stages in law of variable proportion is :

- 1
- 2
- 3
- 4

MTP Mar 21

65 The producer's demand for a factor of production is governed by the _____ of that factor

- price
- marginal productivity
- availability
- Profitability

MTP Mar 21

66 In case of diminishing return to a factor:

- marginal product diminishes
- total product increase at increasing rate
- total product increases at diminishing rate
- both a and c

MTP Mar 21

67 Negative return sets in at the stage when :

- MP is negative
- MP is diminishing
- MP is rising
- none of these

MTP Oct 19

68 In the third phase of Law of variable proportions, MP becomes-

- Zero
- Negative
- Positive
- None of these

MTP Oct 19, Apr 23

69 Law of variable proportion is related to-

- Short-run
- Long-run
- Both a and b
- Very short run

MTP Oct 19

70 When Marginal product is zero, then Total product is -

- Zero
- Falling
- Rising
- Maximum

MTP Oct 19

71 When total product is 200 units and units of variable factor are 8, average product will be

- 25
- 1600
- 96
- 60

MTP Apr 19

72 In Law of negative returns (Third stage of Law of variable proportions)

- Total Product declines, MP is positive
- Total Product declines, MP is zero
- Total Product declines, MP is negative
- Total Product in constant, MP is constant

MTP Apr 19

73 When is TP maximum

- When AP becomes Zero
- When MP becomes Zero
- At the intersecting point of AP and MP
- When MP is highest

MTP Apr 19

74 When marginal product is negative, then total product is:

- Maximum
- Decreasing
- Constant
- None of the above

MTP Mar 19

75 The Law of variable proportions examines the Production function with:

- One factor variable and only one factor fixed
- One factor variable keeping quantities of other factors fixed
- All factors variable
- None of the above

MTP Mar 19

76 When is average product at its maximum point?

- When AP intersects MP
- When AP intersects TP
- When MP is highest
- At the point of inflexion

Extra MCQ

77 Which of the following stage(s) of Law of Variable Proportion are known as "economic non-sense" or "economic absurdity"

- Stage 1
- Stage 2
- Stage 3
- Both (a) & (c)

MTP Aug 18

Read table & answer questions 78-82

Labour Input	Output	Average Product	Marginal Product
0	0	-	-
2			25
4	90		
6	120		
8	140		
10		14	
12		10	

MTP Aug 18

78 At a labour of 2, output is:

a) 25
b) 30
c) 50
d) 75

MTP Aug 18

79 At a labour input of 4, output per worker is:

a) 20
b) 22.5
c) 45
d) 90

MTP Aug 18

80 At a labour input of 6, the marginal product of labour is:

a) 120
b) 30
c) 15
d) 10

MTP Aug 18

81 Output per worker is maximized at a labour input of:

a) 2
b) 4
c) 6
d) 8

MTP Aug 18

82 The firm's output is at a short run maximum at a labour input of:

a) 6
b) 10
c) 12
d) 2

MTP Aug 18

83 The law of diminishing returns:

a) States that beyond some level of a variable input, the average product of that variable input begins to increase steadily.
b) Assumes that there is technological improvement over time.
c) States that beyond some level of a variable input, the marginal product of that variable begins to decrease steadily.
d) Informs a firm whether or not to use a factor input.

MTP Mar 18

84 At the point of inflexion, the marginal product is

a) Increasing
b) Decreasing
c) Maximum
d) Negative

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MTP Nov 22, June 22, June 24

85 "Returns to a factor" refers to the effect on total output of changes in

a) One factor only
b) Various inputs separately
c) All the inputs simultaneously
d) None of the above

MTP Jun 22

86 The law of diminishing returns only applies in cases where

a) There is increasing scarcity of factors of production
b) The price of extra unit of a factor is increasing
c) There is atleast one fixed factor of production
d) Capital is a variable input

MTP Mar 22

87 When the average product of labour is maximized the marginal product of labour:

a) Equal zero
b) is maximized
c) Equal APL
d) None of these

MTP Mar 22

88 A rational producer will always produce in which stage of law of variable proportion:

a) Stage I
b) Stage II
c) Stage III
d) None of these

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MTP Mar 22

89 The law of variable proportions come into being when

a) There are only two variable factors
b) There is a fixed factor and a variable factor
c) All factors are variable
d) Variable factors yield less.

Returns to Scale

MTP Mar 19, ICAI SM

90 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%.

ICAI SM

91 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.

PVQ Jun 23

92 The stage of "Decreasing returns to scale" occur when

a) Decrease in output is less than increase in input
b) Decrease in output is greater than increase input
c) Increase in input is less than increase in output
d) Increase in output is less than increase in input

MTP Aug 18, SEQ

93 You are given the following data:

Output	Total Cost
0	0
1	15
2	30
3	45
4	60
5	75

The above data is an example of:

- Constant returns to scale.
- Decreasing returns to scale.
- Increasing returns to scale.
- Globalization.

SEQ

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

- constant returns to scale
- Increasing returns to scale
- diminishing returns to scale
- negative returns to scale

A.Q.

95 If all inputs are increased in the same proportion, then it is the case of

- Short run production function
- Long run production function
- Law of Variable Proportion
- Law of Returns to Scale

- 1 & 2 only
- 2 & 3 only
- 1 & 4 only
- 2 & 4 only

MTP Mar 22

96 The law of variable proportions come into being when _____

- There are only two variable factors
- There is a fixed factor and a variable factor
- All factors are variable
- Variable factors yield less.

MTP Apr 21

97 Linear homogeneous function means:

- Input and output increases by same proportions.
- Input increases by some proportions and output increase more than proportionately
- Input increase by some proportion and output less than the proportionately
- None of these

MTP Mar 18, Mar 19, Apr 19, May 20

98 If as a result of 50 per cent increase in all inputs, the output rises by 75 per cent, this is a case of:

- increasing returns of a factor
- increasing returns to scale
- constant returns to a factor
- constant returns to scale

MTP Aug 18

99 If one unit of labour and one unit of capital give 200 units of output, two units of labour and two units of capital give 400 units of output and 5 units of labour and five units of capital give 1000 units of output then this is a case of

- Constant returns of scale
- Increasing returns to scale
- Decreasing returns to scale
- None of these

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MTP Mar 22

100 If both factor prices and quantity moves in the same direction then it is called _____

- Decreasing Cost Industry
- Increasing Cost Industry
- Constant Cost Industry
- None of these

MTP Mar 22

101 Increasing return to scale applies to:

- Long run
- Short run
- Either (a) or (b)
- None of these

Cobb Douglas Production Function

A.Q., MTP Nov 23

102 The Cobb-Douglas homogeneous production function given as:
 $Q = L^{1/2} K^{1/2}$ exhibits-

- Constant returns to scale
- Decreasing returns to scale
- Increasing returns to scale
- All of the above at various level of output

A.Q.

103 Cobb-Douglas function When, P = Actual output
L = Labour
C = Capital
b = No. of units of labour
k = Exponent of labour
j = Exponent of capital is represented as-

- $P = bL^j C^k$
- $P = bL^{1/j} C^{1/k}$
- $P = bL^k C^j$
- $P = 1/bL^k C^j$

MTP Apr 21

104 Suppose production function is given by: $Q/LK = 15$ what type of return does it exhibit?

- Constant return
- Increasing return
- Decreasing return
- None of these

MTP Mar 21

105 In the Cobb-Douglas function the change in output due to increase in one additional unit of an input is called?

- elasticity
- return to scale
- total product
- marginal revenue

MTP Jun 22

106 A factor of production is said to be superior if its expenditure elasticity

- is negative
- lies in unit interval
- exceeds unity
- is zero

MTP Jun 22

107 Production function: $Q = 4L^{1/2}K^{2/3}$

- increasing returns to scale
- decreasing returns to scale
- constant returns to scale
- increasing returns to a factor

MTP Nov 22, May 23, June 24

108 In the Cobb-Douglas production function given as: $Q = A.L^a.K^{1-a}$ share of labour in total production is

- a
- 1 - a
- A
- aL

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Production Optimisation

ICAI SM

109 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 products of the inputs.
- c) A change in the marginal rate of technical substitution.
- d) A change in the level of output.

MTP Aug 18, May 21, SEQ

110 An isoquant slopes :

- a) downward to the left
- b) downward to the right
- c) upward to the left
- d) upward to the right

MTP Nov 22, Dec 23, A.Q., Aug 24

Assertion (A): An iso-cost line is a straight line.
Reason (R): The market rate of exchange between the two inputs is constant.

- a) (A) is true and (R) is false
- b) Both (A) and (R) are true & (R) is the correct explanation of (A)
- c) Both (A) and (R) are true & (R) is not the correct explanation of (A)
- d) (A) is false and (R) is true

112 The schedule given below representing the combinations of two variable inputs (Labour & Capital) for two Isoquants of output 100 and 200 respectively

IQ1			
Combina tion	Output	Capital	Labou r
I	100	90	10
II	100	60	20
III	100	40	30
IV	100	30	40

IQ2			
Combina tion	Output	Capital	Labou r
I	200	85	5
II	200	70	10
III	200	60	15
IV	200	55	20

On the basis of above schedule, which of the following statement is true?

- a) IQ1 & IQ2 are parallel to each other.
- b) IQ1 & IQ2 are non parallel & intersecting to each other.
- c) IQ1 & IQ2 are neither parallel nor intersecting each other.
- d) Can't say

MTP Nov 22, SEQ

113 The producer is in equilibrium at a point where the cost line is:

- a) above the isoquant
- b) below the isoquant
- c) cutting the isoquant
- d) tangent to isoquant

114 Isoquant word is made up of two words i.e., Iso & Quant. Where quant means quantity or output then Iso means-

- a) Maximum
- b) Equal
- c) Minimum
- d) None of these

A.Q.

115 Isoquant curve is convex to the origin due to diminishing MRTS. If X-axis is labour (L) axis & Y-axis is Capital (K) axis then MRTS = ?

- a) $\frac{\Delta L}{\Delta K}$
- b) $\frac{\Delta K}{\Delta L}$
- c) $\frac{1}{\Delta K}$
- d) (A) & (B)

MTP Apr 21

116 Which of the Statement is correct:

- a) Isoquant slopes downwards from left to right
- b) No two Isoquant can intersect each other
- c) Isoquants are convex to the origin
- d) All the above

MTP Apr 21

117 The slope of Isocost line is

- a) w/r
- b) r/w
- c) $r \times w$
- d) None of these

MTP Jun 22

118 Which of the following is correct regarding the slope of iso-cost line? Slope of iso-cost line can change due to
1. Change in factor(s) price(s)
2. Change in total outlay or total cost.

- a) 1 only
- b) 2 only
- c) 1 & 2 both
- d) None of these

MTP Jun 22

119 Isoquant word is made up of two words i.e., Iso & Quant. Where Iso means equal then Quant means-

- a) Quantity sold
- b) Output
- c) Quantity demanded
- d) Quantity supplied

MTP Mar 22

120 Isoquant are also called:

- a) Equal product curves
- b) Production Indifference curves
- c) ISO product curves
- d) All of the above

MTP Mar 22

121 Who describes production function as the relationship between the maximum amount of output can be produced and the input required to make that output :

- a) Samuelson
- b) Malthas
- c) Hicks
- d) None of these

Suppose that a sole proprietorship is earning total revenues of Rs. 10,00,000 and is incurring explicit costs of Rs. 7,50,000. The owner could work for another company for Rs.3,00,000 a year

SEQ

5 What will be the implicit cost of the firm?

- a) Rs. 3,00,000
- b) Rs. 2,50,000
- c) Rs. 7,50,000
- d) insufficient data

SEQ

6 The above mentioned firm is earning:

- a) Accounting profit of Rs. 2,50,000.
- b) Economic loss of Rs. 50,000
- c) Both a and b are correct.
- d) None of the above is correct.

MTP Aug 18, SEQ, ICAI SM

Suppose in the above mentioned question, the owner had invested Rs. 500,000 by withdrawing from his saving accounts on which he was earning 5% interest per annum, the economic profit or loss is

- a) economic profit of Rs. 75,000
- b) economic loss of Rs. 75,000
- c) economic profit of Rs. 2,50,000
- d) economic loss of Rs. 2,50,000

SEQ

8 If the total cost of manufacturing commodity 'X' is Rs. 1,50,000. Out of this implicit cost is Rs. 80,000 what will be explicit cost:

- a) Rs. 95,000
- b) Rs. 1,25,000
- c) Rs. 80,000
- d) Rs. 70,000

MTP Dec 22, Dec 23, June 24, A.Q.

9 Cost incurred which has 'no relevance' to future planning are __

- a) Marginal Cost
- b) Sunk Cost
- c) Book Cost
- d) Average Cost

SEQ, ICAI SM

10 Which of the following is a variable 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 lease for factory equipment

MTP Apr 21

11 Which of the following is a variable cost in the short run?

- a) Rent
- b) Wages
- c) Internal payments on borrowed financial capital
- d) None of these

MTP Apr 21

12 Normal profit is part of:

- a) Implicit Costs
- b) Average Cost
- c) Explicit Cost
- d) None of these

MTP Apr 21

13 Relative price of goods reflects their:

- a) Opportunity Cost
- b) Fixed Cost
- c) Average Cost
- d) None of these

MTP Mar 21, May 23, Dec 23, June 24, Aug 24,

14 The Interest on own capital is:

- a) implicit cost
- b) future cost
- c) explicit cost
- d) past cost

MTP Mar 18, Apr 19, Oct 20

15 Suppose that an owner is earning total revenue of Rs. 1,00,000 and is incurring explicit cost of Rs. 60,000. If the owner could work for another company for Rs. 30,000 a year, we would conclude that:

- a) The firm is earning economic profit of Rs. 10,000
- b) The firm is earning accounting profit of Rs. 40,000
- c) The firm is earning economic profit of Rs. 40,000
- d) Both (a) and (b)

MTP Aug 18, May 20

16 Suppose that a sole proprietorship is earning total revenues of Rs. 1,00,000 and is incurring explicit costs of Rs. 75,000. If the owner could work for another company for Rs. 30,000 a year, we would conclude that:

- a) The firm is incurring an economic loss.
- b) Implicit costs are Rs. 25,000.
- c) The total economic costs are Rs. 1,00,000.
- d) The individual is earning an economic profit of Rs. 25,000.

MTP Aug 18, May 20

17 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 profits will be zero.
- d) economic profit will be more than accounting profit

MTP Oct 19

18 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

MTP Oct 19

19 Economic costs includes-

- a) Accounting costs
- b) Implicit costs
- c) Both a and b
- d) None of above

MTP Oct 19

20 Example of Fixed cost is-

- a) Electricity bill
- b) Interest on loans
- c) Expenses on raw material
- d) Wages of daily workers

MTP Oct 19

21 Example of variable cost is -

- a) Salary of permanent staff
- b) Rent of premises
- c) License fees
- d) Wages

MTP Apr 19

22 Variable cost includes the cost of

- a) Buying land and building
- b) Hire charges of machinery
- c) Insurance premium
- d) Material bought

MTP Nov 22, MTP Mar 19, Apr 19, July 24

23 _____ is an implicit cost of production

- a) Wages of the labour
- b) Charges for electricity
- c) Interest on owned money capital
- d) Payment for raw material

MTP Mar 19

24 Accounting profit is equal to:

- a) Total Revenue - Total variable cost
- b) Total Revenue - Total direct cost
- c) Total Revenue - Total Cost
- d) Total Revenue - Total Explicit cost and Total Implicit Cost

MTP Mar 19

25 Economic cost means

- a) Accounting cost + Implicit cost
- b) Accounting cost + Marginal cost
- c) Cash cost + Opportunity cost
- d) Implicit cost

MTP Oct 18

26 Which of the following is correct?

- a) Firms that earn accounting profits are economically profitable.
- b) Opportunity cost plus accounting cost equals economic cost.
- c) When a firm's demand curve slopes down marginal revenue will rise as output rises.
- d) Firms increase profits by selling more output than their rivals.

MTP Mar 18

Suraj is a high school senior thinking about becoming an economic research assistant, Shyam just graduated from college with an economic degree and is looking for a job as an economic research assistant. For whom is the college tuition an opportunity cost?

- a) Suraj
- b) Shyam
- c) Both Suraj and Shyam
- d) Neither Suraj nor Shyam

Read the following paragraph and answer questions 28-31

Nicole owns a small pottery factory. She can make 1,000 pieces of pottery per year and sell them for Rs. 100 each. It costs Nicole Rs. 20,000 for the raw materials to produce the 1,000 pieces of pottery. She has invested Rs. 1,00,000 in her factory and equipment: Rs. 50,000 from her savings and Rs. 50,000 borrowed at 10 percent. (Assume that she could have loaned her money out at 10 per cent too.) Nicole can work at a completing pottery factory for Rs. 40,000 per year.

MTP Oct 18

28 The accounting cost at Nicole's pottery factory is:

- a) Rs.25,000
- b) Rs.50,000
- c) Rs.80,000
- d) Rs.75,000

MTP Oct 18

29 The economic cost at Nicole's factory is:

- a) Rs.75,000
- b) Rs.70,000
- c) Rs.80,000
- d) Rs.30,000

MTP Oct 18

30 The accounting profit at Nicole's pottery factory is:

- a) Rs.30,000
- b) Rs.50,000
- c) Rs.80,000
- d) Rs.75,000

MTP Oct 18

31 The economic profit at Nicole's factory is:

- a) Rs. 75,000
- b) Rs. 35,000
- c) Rs. 80,000
- d) Rs. 30,000

MTP Oct 18

32 A buyer's willingness to pay is that buyer's:

- a) product cost
- b) physical cost
- c) real cost
- d) opportunity cost

MTP Aug 18

33 The cost that firm incurs in hiring or purchasing any factor of production is referred to as

- a) Explicit cost
- b) Implicit cost
- c) Variable cost
- d) Fixed cost

MTP Aug 18

34 Gopal inherited 1 acre of land from his father in 1960. Today the value of that land is Rs. 90 lakh per acre. What is the opportunity cost of Gopal for keeping that land? His father paid Rs. 50,000 for this land.

- a) Nothing, since the land was inherited
- b) Rs. 50,000 which his father paid
- c) Rs. 90 lakh, since the amount Gopal is getting now if he sells it
- d) Both (b) and (c)

MTP Mar 22

35 Which of the following is not part of the opportunity cost of going on holiday?

- a) The money you spent on a theatre show
- b) The money you could have made if you had stayed at home and worked
- c) The money you spent on airline tickets
- d) The money you spent on food

MTP Dec 22

36 Accounting costs are

- a) Implicit cost
- b) Explicit Costs
- c) Economics Costs
- d) None of these

MTP Nov 22, Apr 24, Dec 23, Aug 24

37 Opportunity cost is _____.

- a) A cost that cannot be avoided.
- b) The cost incurred in the past before we make a decision about what to do in the future.
- c) That which we forego or give up when we make a choice or a decision.
- d) The additional benefit of buying an additional unit of a product.

PYQ Jun 22

38 Total economic costs = explicit costs + implicit cost + _____.

- a) Super normal profit
- b) Super normal loss
- c) Normal profit
- d) Economic profit

Cost Function

ICAI SM, MTP Apr 21, May 23

39 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.

Short Run Total Costs

ICAI SM

40 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

MTP Mar 18, Mar 19, ICAI SM

41 Total cost in the short run is classified 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) Interest payment on past borrowings.
- d) Payment of rent on building.

ICAI SM, MTP Mar 21

42 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) $TC = TVC - TFC$

MTP Oct 18, SEQ, ICAI SM

43 Which cost increases continuously with the increase in production?

- a) Average cost.
- b) Marginal cost.
- c) Fixed cost.
- d) Variable cost

MTP Mar 22, ICAI SM

44 Which of the following statements is false in respect of fixed cost of a firm?

- a) As the fixed inputs for a firm cannot be changed in the short run, the TFC are constant, except when the prices of the fixed inputs change.
- b) TFC continue to exist even when production is stopped in the short run, but they exist in the long run even when production is not stopped.
- c) Total Fixed Costs (TFC) can be defined as the total sum of the costs of all the fixed inputs associated with production in the short run.
- d) In the short run, a firm's fixed cost cannot be escaped even when production is stopped.

MTP Nov 22

45 Given $TC = 2000 + 15Q - 6Q^2 + Q^3$, How much is TFC at $Q = 2000$?

- a) 2000
- b) 975
- c) 30,000
- d) Can't be determined

MTP May 20, ICAI SM

46 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 fixed cost and total variable cost.

A.Q.

47 The area of a rectangle formed by drawing perpendiculars on both axis from a point on AFC curve is equal to _____.

- a) Total cost
- b) Marginal cost
- c) Average cost
- d) Total fixed cost

MTP Apr 21

48 The Shape of TC Curve of the monopolist is _____.

- a) U Shape
- b) S Shape
- c) Inverse S Shape
- d) None of these

MTP Apr 21

49 A mfg. company has $TFC = 120$ lakhs, $TVC = 100Q + 7Q^2 + 0.25Q^3$. Calculate the MC?

- a) $100 + 14Q + 0.75Q^2$
- b) $120 + 7Q^2 + 0.25Q^3$
- c) $100 + 7Q^2 + 0.25Q^3$
- d) 107.25

Extra MCQ

50 If $TC = 50 + 20Q + 3Q^2$, Then $MC = ?$

- a) 73
- b) $50 + 20Q + 9Q^3$
- c) $70 + 9Q^2$
- d) $20 + 9Q^2$

MTP Apr 19, Apr 23, Nov 23, ICAI SM

51 The vertical difference between TVC and TC is equal to-

- a) MC
- b) AVC
- c) TFC
- d) None of the above

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MTP Oct 19

52 The total cost of producing 30 units of output is Rs. 300. If average fixed cost at this level of output is Rs. 7, then the total variable cost will be -

a) Rs. 160
b) Rs. 140
c) Rs. 90
d) Rs. 120

MTP Oct 19

53 Total costs is the vertical summation of -

a) TFC and TVC
b) AFC and AVC
c) TVC and AVC
d) None of these

MTP Mar 22

54 How do the TVC curve behaves when the law of diminishing return begins to operate-

a) Rise at a decreasing rate
b) Fall at an increasing rate
c) Fall at a decreasing rate
d) Rise at an increasing rate

MTP Oct 19

55 TVC can be calculate as-

a) AVC/Q
b) $TC - TFC$
c) $AC - AFC$
d) None of these

Extra MCQ

56 The total cost of producing 50 units of output is Rs. 500. If average variable cost at this level of output is Rs. 8, then the total fixed cost will be -

a) 400
b) 100
c) 600
d) 20

Short Run Average Costs

SEQ, ICAI SM, MTP Mar 19, Nov 23

57 Which of the following cost curves is never 'U' shaped?

a) Average cost curve.
b) Marginal cost curve.
c) Average variable cost curve.
d) Average fixed cost curve.

MTP Apr 21, May 23, SEQ, ICAI SM

58 In the short run, when the output of a firm increases, its average fixed cost:

a) increases.
b) decreases.
c) remains constant.
d) first declines and then rises.

MTP Nov 22

59 Which one of the following cost curve is not in U-shape?

a) AC
b) MC
c) AFC
d) AVC

Use the following data to answer questions 60-62

Output (Q)	Total Cost (TC) [In Rs.]
0	240
1	330
2	410
3	480
4	540
5	610
6	690

SEQ, ICAI SM

60 The average fixed cost of 2 units of output is :

a) Rs. 80
b) Rs. 85
c) Rs. 120
d) Rs. 205

SEQ, ICAI SM

61 The marginal cost of the sixth unit of output is :

a) Rs. 133
b) Rs. 75
c) Rs. 80
d) Rs. 450

SEQ, ICAI SM

62 Diminishing marginal returns start to occur between units:

a) 2 and 3.
b) 3 and 4.
c) 4 and 5.
d) 5 and 6

ICAI SM

63 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) $AFC = ATC - AVC$.

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MTP Mar 19, Oct 20, ICAI SM

64 A firm producing 7 units of output has an average total cost of Rs. 150 and has to pay Rs. 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) Rs. 200
b) Rs. 50
c) Rs. 300
d) Rs. 100

MTP Apr 19, ICAI SM

65 A firm has a variable cost of Rs. 1000 at 5 units of output. If fixed costs are Rs. 400, what will be the average total cost at 5 units of output?

a) Rs. 280
b) Rs. 60
c) Rs. 120
d) Rs. 1400

SEQ, ICAI SM, MTP May 23

66 A firm's average fixed cost is Rs. 20 at 6 units of output. What will it be at 4 units of output?

a) Rs. 60
b) Rs. 30
c) Rs. 40
d) Rs. 20

ICAI SM

67 The efficient scale of production is the quantity of output that minimizes

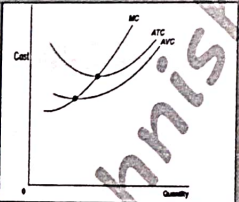
a) average fixed cost.
b) average total cost.
c) average variable cost.
d) marginal cost.

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ICAI SM
68 When marginal costs are below average total costs,
a) average fixed costs are rising.
b) average total costs are falling.
c) average total costs are rising.
d) average total costs are minimized

MTP Oct 19, A.Q.
69 Which one of the following cost curve is rectangular hyperbola in shape?
a) TFC
b) MC
c) AFC
d) AVC

ICAI SM
70 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.

A.Q.
71 The areas of all rectangles formed by drawing perpendiculars on both axis from different points on AFC curve are____
a) same
b) different
c) (A) or (B)
d) can't be determined

Extra MCQ
72 The behaviour of average total cost curve depends upon the behaviour of____
a) AVC curve
b) AFC curve
c) MC Curve
d) Both (a) & (b)

MTP Nov 22, A.Q.
73 Consider the following statements about the relationship between cost and production
1. When AP rises, AVC falls
2. When AP reaches at maximum, AVC is minimum
3. When AP falls, AVC rises
4. Which of the above statements is correct?
a) 1 & 2
b) 3 only
c) 1, 2 & 3
d) 2 & 3

MTP Mar 18
74 Suppose the short run cost function can be written as $TC = 250 + 10Q$. Average Fixed cost equals:
a) $250/Q$
b) 250
c) 10
d) $250/Q + 10$

MTP Dec 22, A.Q.
75 U Shaped average cost curve is based on
a) Law of variance proportions
b) Law of increasing cost
c) Law of decreasing cost
d) None of these

PYQ Jun 22
76 Which cost decreases continuously with increase in production?
a) Average fixed cost
b) Average variable cost
c) Marginal cost
d) Average total cost

Marginal Costs
MTP May 20, SEQ, ICAI SM
77 Diminishing marginal returns implies:
a) decreasing average variable costs.
b) decreasing marginal costs.
c) increasing marginal costs.
d) decreasing average fixed costs.

ICAI SM, MTP Mar 19, MTP Mar 22
78 With which of following is concept of marginal cost closely related?
a) Variable cost.
b) Fixed cost.
c) Opportunity cost.
d) Economic cost

ICAI SM
79 Which of the following 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 average cost is rising, marginal cost is above the average cost.
d) When the average cost is falling, the marginal cost must be rising

MTP Apr 19, ICAI SM, SEQ
80 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.

81 Which of the following is true of the relationship between the marginal cost function and the average cost function?
a) 1 & 2
b) 3 only
c) 1, 2 & 3
d) 2 & 3

MTP Aug 18, ICAI SM
82 A firm's average total cost is Rs. 300 at 5 units of output and Rs. 320 at 6 units of output. The marginal cost of producing the 6th unit is
a) Rs. 20
b) Rs. 120
c) Rs. 320
d) Rs. 420

83 A firm's average variable cost is Rs. 200 at 4 units of output and Rs. 230 at 5 units of output. Total Fixed Cost = Rs 100. The marginal cost of producing the 5th unit is ?

- a) Rs. 30
- b) Rs. 350
- c) Rs. 230
- d) Rs. 130

ICAI SM

84 Marginal cost changes due to changes in _____

- a) Total cost
- b) Average cost
- c) Variable cost
- d) Quantity of output

Extra MCQ

85 Marginal Cost is the slope of _____

- a) Total Cost
- b) Total Fixed Cost
- c) Total Variable Cost
- d) Both (a) & (c)

86 Match the following and choose the correct answer using the codes given below

Average Cost	
A	AC horizontal
B	AC rises
C	AC falls
D	AC falls first & then rises

Marginal Cost	
I.	MC will rise at a greater rate
II.	MC falls but at a higher rate
III.	MC falls at higher rate & then rises at higher rate
IV.	MC will coincide with it

Codes:	a	b	c	d
(A)	IV	II	I	III
(B)	IV	I	II	III
(C)	I	II	III	IV
(D)	II	III	IV	I

87 Marginal cost is less than the Average Cost when Average Cost falls with _____

- a) an increase in output
- b) a decrease in output
- c) constant output
- d) None of these

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88 Which of the following is not a formula for marginal cost?

- a) $MCN = TCN - TCN-1$
- b) $MC = \frac{\Delta TC}{\Delta Q}$
- c) $MCN = TVCN - TVCN-1$
- d) $MCN = TFCN - TFCN-1$

89 Which of following is incorrect ?

- a) $TC = AC \times Q$
- b) $\sum MC = TC$
- c) $\sum MC = TVC$
- d) $\sum MC + TFC = TC$

90 If firm's average cost curve is falling then marginal curve must be:

- a) Falling
- b) Rising
- c) Below average cost curve
- d) None of the above

91 Which of the following is correct?

- a) Marginal cost is always less than the average cost.
- b) Marginal cost is always more than the average cost.
- c) Marginal cost is always equal to the average cost at its minimum point.
- d) Marginal cost is always equal to the average cost

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Long Run Average Costs

SEQ, ICAI SM

96 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.

ICAI SM

97 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.

MTP Nov 23, ICAI SM

98 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

99 The LAC curve

MTP Apr 19, SEQ

- 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 $LMC > LAC$

ICAI SM, MTP Mar 22

100 The positively sloped (i.e. rising) part of the long run average total cost curve is due to which of the following?

- a) Diseconomies of scale.
- b) Increasing returns.
- c) The firm being able to take advantage of large-scale production techniques as it expands its output.
- d) The increase in productivity that results from specialization

Extra MCQ

101 Short run average cost (SAC) curve is also known as ____

- a) Planning curve
- b) Envelope curve
- c) Plant Curve
- d) Both (a) & (b)

102 Empirical evidence shows modern firms face ____ LAC curve, which implies that initially when output is increased due to increase in size of plant, per unit cost falls rapidly due to economies of scale. The LAC curve does not increase even after a sufficiently large scale of output as it continues to enjoy economies of scale.

- a) U-shaped
- b) Boat shaped
- c) L-shaped
- d) Both (a) & (b)

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SEQ

103 Which is the other name that is given to the long run average cost curve?

- a) profit curve
- b) planning curve
- c) demand curve
- d) indifference curve

MTP Oct 19, Mar 21

104 Long run average cost (LAC) is :

- a) u shaped
- b) is also called envelope curve
- c) both a and b
- d) none of these

MTP Jun 22

105 Which of the following is correct regarding long run cost?
1. It is least cost of producing each level of output
2. LAC curve is envelope of SAC curves.
3. LAC is U-shaped

- a) 1 & 2 only
- b) 2 & 3 only
- c) 1 & 3 only
- d) 1, 2 & 3

ICAI SM

106 A firm's long-run average total cost curve is

- a) Identical to its long-run marginal-cost curve.
- b) Also its long-run supply curve because it explains the relationship between price and quantity supplied.
- 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 the curves of short-run average total cost.

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MTP Dec 22
107 The reason behind the upward sloping portion of the long run cost curve is

- a) economy of scale
- b) diseconomy of scale
- c) diminishing marginal rate of substitution
- d) None of these

Economies & Diseconomies of Scale

ICAI SM

108 Decentralisation of decision making & mechanisation of managerial functions enhance efficiency & productivity of managers. It is a case of ____

- a) Internal economies of scale
- b) Internal diseconomies of scale
- c) External economies of scale
- d) External diseconomies of scale

ICAI, MTP May 20, Apr 21

109 If a very small factory were to expand its scale of operations in the long run it is likely that it would initially experience:

- a) Constant returns to scale
- b) Diseconomies of scale
- c) Economies of scale
- d) None of these

A.Q.

110 Diminishing returns are due to ____ and increasing returns are due to ____

- a) Internal diseconomies, Internal economies
- b) Internal economies, Internal diseconomies
- c) External diseconomies, Internal economies
- d) Internal diseconomies, external economies

MTP Mar 21
111 Certain benefit an Industry gets when it expands its scale of production is known as:
a) Internal economies
b) diseconomies
c) external economies
d) Profit

MTP Jun 22
112 Economies and diseconomies of scale explain why the
a) short run average fixed cost curve declines so long as output increases.
b) marginal cost curve must intersect the minimum point the firm's average variable cost curve.
c) long run average cost curve is typically U-shaped.
d) short run average total cost curve is U-shaped.

MTP Jun 22, June 24
113 Which one of the following is not an internal economies of scale?
a) Technical economies
b) Financial economies
c) Economies due to localization of industries
d) Marketing economies

MTP Mar 21, Apr 23, May 24
114 The distinction between selling cost and production cost was made by:
a) Chamberlin
b) Sweezy
c) Mrs Joan Robinson
d) None of these

MTP Apr 23
115 Accounting costs are also called:
a) Explicit cost
b) Implicit Cost
c) Either a or b
d) None of these

MTP May 23, June 24
116 X, Y and Z are confused with the formula for defining TC
(a) X Says: $TC = TVC + TFC$
(b) Y Says: $TC = AC \times \text{output}$
(c) Z Says: $TC = \Sigma MC + TFC$
Identify who amongst them is correct
a) (a) X
b) (b) Y
c) (c) Z
d) (d) All of them

MTP May 23
117 Which two curves are intersected by MC Curve at their minimum points:
a) AC and AVC
b) AC and AFC
c) AC and TVC
d) AVC and AFC

MTP May 23
118 Which of the following is a variable cost for a firm?
a) Interest on Loan
b) Monthly rent
c) Insurance Premium
d) Wages to Employees

MTP Apr 23
119 Which of the following involve a trade-off?
a) Taking a nap
b) Going to University
c) Watching a football game on Saturday afternoon
d) All of these

MTP May 23
120 Which curve is not affected by fixed cost?
a) MC Curve
b) TC Curve
c) AC Curve
d) AFC Curve

Answer Key - Economics Chapter 3 - Unit 2

1	C	21	D	41	A	61	C	81	C	101	C
2	A	22	D	42	C	62	C	82	D	102	C
3	B	23	C	43	D	63	D	83	B	103	B
4	D	24	C	44	B	64	D	84	C	104	C
5	A	25	A	45	A	65	A	85	D	105	D
6	C	26	B	46	D	66	B	86	B	106	D
7	B	27	A	47	D	67	B	87	A	107	B
8	D	28	A	48	C	68	B	88	D	108	A
9	B	29	B	49	A	69	C	89	B	109	C
10	B	30	D	50	D	70	D	90	C	110	A
11	B	31	D	51	C	71	A	91	C	111	A
12	A	32	D	52	C	72	D	92	B	112	C
13	A	33	A	53	A	73	C	93	B	113	C
14	A	34	C	54	D	74	A	94	B	114	A
15	D	35	D	55	B	75	A	95	B	115	A
16	A	36	B	56	B	76	A	96	A	116	D
17	B	37	C	57	D	77	C	97	C	117	A
18	B	38	C	58	B	78	A	98	D	118	D
19	C	39	D	59	C	79	C	99	D	119	D
20	B	40	B	60	C	80	A	100	A	120	A

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Chapter 3

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MTP Dec 23, Apr 24, Aug 24

1 Assertion (A): In the short run, a producer operates in only II stage of Law of Diminishing Returns Where average product of variable factor is declining.
Reason (R): In stage I and stage III the marginal product of the fixed and the variable factors respectively are negative.

- a) (A) is true and (R) is false
- b) Both (A) and (R) are true & (R) is the correct explanation of (A)
- c) Both (A) and (R) are true & (R) is not the correct explanation of (A)
- d) (A) is false and (R) is true

MTP Apr 24

2 The concept of diminishing marginal returns implies that:

- a) output cannot decrease as long as labour is substituted for capital
- b) output decreases if either labour or capital is decreased
- c) output increases but at a decreasing rate as the amount of labour is increased and the amount of capital remains fixed
- d) if the capital stock is kept constant, output cannot increase even if more labour is available

MTP Apr 24

3 The producer is in equilibrium at a point where the cost line is:

- a) above the isoquant
- b) below the isoquant
- c) cutting the isoquant
- d) tangent to isoquant

MTP Apr 24

4 Under the law of variable proportion, stage I is known as the stage of increasing returns because:

- a) Marginal product of the variable factor increases throughout this stage
- b) Average product of the variable factor increases throughout this stage
- c) Marginal product increases at increasing rate throughout this stage
- d) Total increases at increasing rate throughout this stage

MTP Apr 24

5 A mathematical relationship showing the maximum output that can be produced by each and every combination inputs is called _____

- a) Production equation
- b) Production function
- c) Production schedule
- d) Production identity

PYQ Dec 23

6 'Innovation' theory of entrepreneurship is propounded by

- a) Schumpeter
- b) Frank knight
- c) John Stuart mill
- d) Jeremy Bentham

PYQ Dec 23

7 Which of the following is not a characteristic of labour?

- a) Labour is perishable
- b) Labour is an active factor
- c) Labour power differs from one labour to labourer
- d) Labour is immobile

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3.36

PYQ Dec 23	
8	Consider the examples-seeds, fuel, raw material etc. these are a form of capital, performs its functions in production for single use and is not available for further use a) Individual capital b) Social capital c) Circulating capital d) Human capital
PYQ Dec 23	
9	The Cobb-Douglas production function explained returns to scale in production a) Decrease b) Fluctuate c) Increase d) Constant
PYQ Dec 23	
10	It shows all those combinations of different factors of production which give the same output to the producer is called a) Kinked demand curve b) Isoquant curve c) Marginal cost curve d) Short run cost curve
PYQ Dec 23	
11	Money not paid out to the owners of the firm for self-owned factors employed in a business and therefore not entered in the book of accounts is considered as a) Explicit cost b) Implicit cost c) Sunk cost d) Incremental cost
PYQ Dec 23	
12	Which one of the following is statement is correct in relation to the profit in accounting and economic sense a) Accounting profit considers explicit and implicit costs. b) Accounting profit is generally less than the economic profit. c) Economic profit includes opportunity cost related with self-owned factors. d) No difference between accounting and economic profit
MTP Nov 23	
13	Normal Profits earned by a firm are included in: a) Implicit cost b) Explicit cost c) Fixed cost d) Variable cost
MTP Nov 23	
14	In the short run, total cost curve starts from: a) Origin b) Positive vertical intercept c) Positive horizontal intercept d) None of these
MTP Nov 23	
15	If a resource can be put only to a particular use, then opportunity cost is: a) Applicable and quantifiable b) Applicable but not quantifiable c) Not applicable at all d) None of these
MTP Dec 23, Aug 24	
16	If the MRTSLK equals 2, then the MPK/MPL is: a) 0.5 b) 1 c) 2 d) 4

MTP Dec 23, Aug 24	
17	The MC curve reaches its minimum point before the AVC curve and AC curve. In addition, the MC curve intersects the AVC curve and the AC curve at their lowest point. The above statements are both true: a) always b) never c) often d) sometimes
MTP Dec 23, Aug 24	
18	Which of the following is not a reason for operation of increasing returns to a factor? a) Better utilisation of fixed factor b) Limitation of fixed factor c) Increase in efficiency of variable factor d) Indivisibility of fixed factor
MTP Dec 23, June 24, Aug 24	
19	At the Point of Inflexion: a) Total Product is maximum b) Average Product is maximum c) Marginal Product is maximum d) Marginal Product is zero
MTP Dec 23, Aug 24	
20	Cost function is a concept: a) Economical b) Functional c) Financial d) Technical
MTP Dec 23, Aug 24	
21	The cost curve, which is Inversely S-shaped is: a) Average Cost Curve b) Total Fixed Cost Curve c) Total Variable Cost Curve d) Marginal Cost Curve
MTP Dec 23, Aug 24	
22	The cost which is never zero even when production is stopped is known as: a) Supplementary Cost b) Prime Cost c) Explicit cost d) None of these
MTP Jul 24	
23	Which of the following statements is false: a) When MP rises, TVC increases at an increasing rate. b) When MP rises, TVC increases at a diminishing rate. c) When MP becomes constant, TVC increases at a constant rate. d) When MP falls, TVC increases at a increasing rate.
PYQ Sep 2024	
24	Which of the following expense is included in cost of production and termed as accounting cost? a) Wages paid to workers employed in the factor. b) Expenses incurred on research & development c) Expenses incurred on advertising. d) Common costs incurred for general operation of business.
PYQ Sep 2024	
25	When does the Law of Variable Proportions, or Law of Diminish Returns, become relevant? a) In the long run b) In the short run c) In both the short and long run d) Only when all factors are variable
PYQ Sep 2024	
26	At higher total cost curve and average variable cost curve come closer because: a) AFC remains constant. b) AVC remains constant. c) AFC accounts for relatively smaller percentage of ATC. d) AVC accounts for relatively smaller percentage of ATC.

PYQ June 2024

27 The money cost of production incurred by the firm such as wages, lightning, lease payment etc., are _____ cost

a) Implicit cost
b) Opportunity cost
c) Outlay cost
d) Economic cost

PYQ June 2024

Using diagram answer following

28

a) A = MC, B = ATC, C = AVC, D = AFC
b) A = AC, B = MC, C = AVC, D = AFC
c) A = AFC, B = ATC, C = AVC, D = MC
d) A = MC, B = AVC, C = ATC, D = AFC

PYQ Sep 2024

29 How is production in the economic sense distinguished from non-market activities performed within a household?

a) Involvement of love and affection
b) Exchange in the market
c) Voluntary nature of the activity
d) Intangible outputs

PYQ Sep 2024

30 A firm produces 5 units of output at average fixed cost of Rs. 4 per unit. For production of 10 units of output average cost is Rs. 7 per unit. Average variable cost for producing 10 units of output is :

a) 4
b) 5
c) 6
d) 10

Use the following information to answer questions 81 - 32.

Hours of labour	Total product	Average product	Marginal product
0	-	-	-
1	20	20	
2	50		
3	90		40
4		30	

PYQ Sep 2024

31 What is the average product for the third hour of labour ?

a) 25 c) 35
b) 30 d) 40

PYQ Sep 2024

32 What is the marginal product of the second hour of labour ?

a) 10 c) 30
b) 20 d) 40

PYQ Sep 2024

33 What is the primary characteristic of decreasing returns to scale ?

a) Total output increases at an increasing rate
b) Total output increases at a decreasing rate
c) Total output remains constant
d) Total output decreases

PYQ Sep 2024

34 What term is used to describe costs that remain fixed over a certain range of output but suddenly jump to a new higher level when output goes beyond a given limit ?

a) Variable cost
b) Semi - variable cost
c) Stair - step variable cost
d) Sunk cost

PYQ Sep 2024

35 What will be the total amount of sunk cost on the basis of following information ?

Particulars	Amount Rs. crores
Fuel and power	1000
Research and development	150
Rent	9
Wages	10
Advertisement	5

a) Rs. 1,150 crores
b) Rs. 155 crores
c) Rs. 159 crores
d) Rs. 164 crores

MTP May 2024

36 The tendency for managers to operate a firm in a way that maximizes their personal utility rather than the firm's profits is referred to as the:

a) consumer utility incentive.
b) principal-agent problem.
c) hidden agenda scenario.
d) Modigliani hypothesis.

MTP May 2024

37 If marginal product of labour is below average product of labour, then:

a) average product of labour is flat.
b) average product of labour is increasing.
c) average product of labour is decreasing.
d) may be increasing, decreasing or flat

MTP May 2024

38 Inputs that cannot be easily varied during the time period under consideration are called:

a) short run inputs.
b) long run inputs.
c) fixed inputs.
d) variable inputs.

MTP May 2024

39 By using computers to design and manufacture products, firms are able to:

a) reduce production costs.
b) reduce the optimal lot size.
c) reduce the time required to introduce new products.
d) All of the above are correct.

MTP May 2024

40 The law of diminishing returns begins at the level of output where:

a) marginal cost is at a minimum.
b) average variable cost is at a minimum.
c) average fixed cost is at a maximum.
d) None of the above is correct.

MTP May 2024

41 If a firm has a downward-sloping long-run average cost curve, then:

a) it is experiencing decreasing returns to scale.
b) it is experiencing decreasing returns.
c) it is a natural monopoly.
d) marginal cost is greater than average cost.

MTP May 2024	
42	If the firm's total costs are INR 2,200,000 and total variable costs are INR 1,300,000, what are the total fixed costs?
a) 900,000 b) 1,200,000 c) 4,500,000 d) None of the above.	
MTP May 2024	
43	Envelope curve is also called:
a) Long Run Average Cost curve b) Short Run Average Cost curve c) Average Fixed Cost d) None of these	
MTP May 2024	
44	The Producer is in equilibrium at a point there the cost line is:
a) above the isoquant b) cutting the isoquant c) Tangent to isoquant d) None of these	
MTP May 2024	
45	Which of the following cost wherein curve 'u' shaped?
a) Average fixed cost curve b) Average cost curve c) Marginal cost curve d) None of these	
MTP June 2024	
46	When Total product is 100 and units of variable factor are 4, average product will be:
a) 400 b) 25 c) 104 d) None of these	

MTP June 2024	
47	When average cost (AC) is falling:
a) $MC < AC$ b) $MC > AC$ c) $MC = AC$ d) None of these	
MTP June 2024	
48	The firm can attain its equilibrium in _____ stage of the law of variable proportion.
a) 1st b) 2nd c) 3rd d) Any of the above	

**Answer Key – Economics Chapter 3
– MTP & PYQ MCQs**

1	B	11	B	21	A	31	B	41	A
2	C	12	C	22	A	32	C	42	A
3	D	13	A	23	A	33	B	43	A
4	B	14	A	24	A	34	C	44	C
5	B	15	C	25	B	35	B	45	A
6	A	16	C	26	C	36	B	46	B
7	D	17	A	27	C	37	C	47	A
8	C	18	B	28	A	38	C	48	C
9	D	19	C	29	B	39	D		
10	B	20	B	30	B	40	A		

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