

# Business Economics - Challenge 2

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1. Average product product is the change in total product per unit change in the quantity of variable factor. 1 point

- True
- False

2. Constant returns to scale is also called \_\_\_\_\_ 1 point

- Production function
- Linear homogeneous production function
- Linear fuction
- None of the above

3. \_\_\_\_\_ show various combinations of two factors which the firm can buy with given expenditure or outlay.

1 point

- Iso-quant lines
- Iso-cost lines
- Tangency point
- None of the above

4. To economists, the main difference between the short run and the long run is that:

1 point

- In the short run all inputs are fixed, while in the long run all inputs are variable.
- In the short run the firm varies all of its inputs to find the least-cost combination of inputs.
- In the short run, at least one of the firm's input levels is fixed.
- In the long run, the firm is making a constrained decision about how to use existing plant and equipment efficiently

5. The "law of diminishing returns" applies to:

1 point

- the short run, but not the long run.
- the long run, but not the short run.
- both the short run and the long run.
- neither the short run nor the long run.

6. Which one of the following is an external economies of scale in long run?

1 point

- Risk bearing economies
- Financial economies
- Development of skill labour
- None of the above

7. Economic costs of production differ from accounting costs of production because

1 point

- Economic costs include expenditures for hired resources while accounting costs do not.
- Accounting costs include opportunity costs which are deducted later to find paid out costs.
- Accounting costs include expenditures for hired resources while economic costs do not.
- Economic costs add the opportunity cost of a firm which uses its own resources.

8. In the long run, if a very small factory were to expand its scale of operations, it is likely that it would initially experience

1 point

- an increase in pollution level.
- diseconomies of scale
- economies of scale.
- constant returns to scale.

9. An iso quant shows

1 point

- 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.
- All the alternative combinations of two products among which a producer is indifferent because they yield the same profit.
- All the alternative combinations of two inputs that yield the same total product.
- Both (b) and (c).

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

1 point

- rent of the factory.
- wages paid to the factory labour.
- interest payments on borrowed financial capital
- payment on the lease for factory equipment.

11. The efficient scale of production is the quantity of output that minimizes

1 point

- average fixed cost.
- average total cost.
- average variable cost.
- marginal cost.

12. Marginal cost changes due to changes in \_\_\_\_\_

1 point

- Total cost
- Average cost
- Variable cost
- Quantity of output

13. Which of the following statements is incorrect?

1 point

- The LAC curve is also called the planning curve of a firm.
- Total revenue = price per unit  $\times$  number of units sold.
- Opportunity cost is also called alternative cost.
- If total revenue is divided by the number of units sold we get marginal revenue

14. The cobweb theory was propounded by

1 point

- Hawtrey
- Adam Smith
- J M Keynes
- Nicholas Kaldor

15. Which economic indicator is required to predict the turning point of business cycle?

1 point

- Leading indicator
- Lagging indicator
- Coincident
- All of the above

16. The most probable outcome of an increase in the money supply is

1 point

- interest rates to rise, investment spending to rise, and aggregate demand to rise
- interest rates to rise, investment spending to fall, and aggregate demand to fall
- interest rates to fall, investment spending to rise, and aggregate demand to rise
- interest rates to fall, investment spending to fall, and aggregate demand to fall

17. The four phases of the business cycle are

1 point

- expansion, peak, contraction and trough
- contraction, expansion, trough and boom
- expansion contraction, peak, and trough
- peak, depression, bust, and boom

18. Business cycles generally originate in

1 point

- free market economies.
- open market economies.
- Closed market economies.
- None of the above.

19. Which of the following is not an external cause of business cycle?

1 point

- Post War Reconstruction
- Population growth
- Variations in government spending
- Technology shock

20. A leading indicator is

1 point

- a variable that tends to move along with the level of economic activity
- a variable that tends to move in advance of aggregate economic activity
- a variable that tends to move consequent on the level of aggregate economic activity
- None of the above

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