CHAPTER-3 COST

1. Marginal cost is the cost:

(a) Of the last unit production

(b) Of the Marginal unit

(c) Of the marginal efficient unit

(d) Of the average unit of production

2. The cost, 'what has to be paid to retain it in its present use' is called:

(a) Nominal cost

(b) Social cost of a factors of production

(c) Opportunity cost of a factor

(d) Economic cost of a factors of production

3. Why the average fixed cost curve does not touch the output axis

(a) Because A FC cannot be negative

(b) Because AFC cannot be zero

(c) Because AFC cannot be less than one

(d) None of these

4. The difference between the average to¬tal cost and average fixed cost shows

(a) Normal profits

(b) Implicit costs

(c) Average variable cost

(d) Opportunity costs

5. Which of the following curves is a rectangular hyperbola?

(a)ATC (b) AFC

(c)AVC (d) MC

6. Any expansion in output by a firm in the short period will always reduce the

(a) Average variable cost

(b) Average fixed cost

(c) Both average fixed and variable costs

(d) None of the above ;

7. Of the following which one corresponds to fixed cost?

(a) Payments for raw material

(b) Labour costs

(c) Transportation charges

(d) Insurance premiums on property

8. With the expansion of output the short run average cost curve, beyond a point, starts rising because

(a) Average fixed cost increases sharply

(b) More production yields lower per unit -price

(c) The law of variable proportions applies to short run production

(d) None of the above

9. Average variable cost falls in the beginning as the firm approaches

(a) Maximum possible production

(b) Near capacity production

(c) Minimum possible production

(d) None of the above

10. MC is given by

(a) The slope of the TVC curve

(b) The slope of the TVC curve but not by the slope of the TC curve

(c) The slope of the TC curve but not by the slope of the TVC curve

(d) Either the slope of the TVC curve or the slope of the TC curve

11. Marginal cost curve cuts the average cost curve

(a) At the left to its lowest point

(b) At its lowest point

(c) At the right to its lowest point

(d) None of the above

12. Given a U-shaped average cost curve, the relationship between average cost and marginal cost is such that marginal cost must always be

(a) Falling when average cost is falling

(b) Rising when average cost is falling

(c) Falling when average cost is rising

(d) Rising when average cost is rising

13. When average cost is constant, marginal cost

(a) Is equal to average cost

(b) May be constant

(c) May be rising

(d) May be falling

14. The point on which the long run average cost is minimum in a firm, short run average cost curve will also be the minimum cost point on the firm's long run average cost curve. This is

(a) Always true

(b) Never true

(c) True when LAC is falling

(d) True only at that level of output when LAC is minimum

15. The firm producing at the minimum point of the LAC curve is said to be

(a) Operating under diminishing costs

(b) Making optimum use of plant capacity

(c) Operating at excess capacity

(d) Operating under increasing costs

16. If a firm produces zero output in the short period

(a) Its total cost will be zero

(b) Its variable cost will be zero

(c) Its fixed cost will be positive

(d) Its average cost will be zero

17. Which one of the following would be a variable cost to a firm?

(a) Mortgage payments on the factory

(b) The cost of raw materials

(c) Depreciation of machines owing to age

(d) Interest on debentures

18. Generally the profits are maximized in the short run at the point at which

(a) Marginal cost of production is equal to the marginal return

(b) Marginal return, is negative

(c) Marginal return is zero -

(d) Marginal cost is zero

19. The general average cost curve is also known as

(a) Total unit cost curve

(b) Average total unit cost curve

(c) Total marginal unit cost curve

(d) Total variable unit cost curve

20. If marginal cost is above average variable cost at a time when output is rising, then

(a) A Average total cost is falling

(b) Average variable cost is rising

(c) Average variable cost is falling

(d) Average total revenue is rising

21. All of the following curves are U-shape except

(a) The AVC curve (b) The AFC curve

(c) The AC curve. (d) The MC curve

22. The advertisement cost is included in

(a) Fixed cost

(b) Some times in fixed cost sometimes in-Variable cost

(c) Always in variable cost

(d) Never included in variable cost

23. Marginal cost curve

(a) Has the shape of a rectangular hyperbola

(b) Has the shape of the alphabet U

(c) Has the shape of the inverted U

(d) All of these

24. The average profit is equal to the difference between:

(a) AC and TC (b) AC and VC

(c) AC and AR (d) AC and TR

25. Each short-run average cost curves coincides with long run cost curves

(a) At upper point

(b) At lower point

(c) At middle point

(d) No permanent position

26. In case of long run .... is variable.

(a) Labour (b) Land

(c) Enterprise (d) All the above

27. "Steps downwards at first and then upwards" it is the movement of

(a) AVC curve (b) TFC curve

(c) TVC curve (d) TC curve

28. In case of short period ....is variable.

(a) Land (b) Labour

(c) Capital (d) Enterprise

variable factor.

29. In the case of very short period ....is variable.

(a) Land (b) Capital

(c) Labour (d) None of above

30. The vertical distance between TVC and TC is equal to

(a) MC (b) AVC

(c) TFC (d) None of these

31. Rectangular hyperbola is the shape of

(a) TFC (b) AFC

(c) FC (d) MC

32. The cost assigned to factors of productions that the firm neither hires nor purchases is called

(a) Social cost (b) Opportunity cost

(c) Economic cost (d) Implicit cost

33. The normal long run average cost curve is influenced by the

(a) Principle of constant returns to scale

(b) Economies and diseconomies of large scale production

(c) Principle of diminishing returns

(d) All of the above

34. Marginal cost is found with the help of changes in

(a) Total fixed cost (b) Total variable cost

(c) Total explicit cost (d) Total implicit cost

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35. An increase in a firm's fixed cost will

(a) Change marginal cost but not total cost

(b) Change both marginal and total costs

(c) Change variable cost but not marginal Cost

(d) Change total cost but not marginal cost

36. Minimum marginal cost occurs at the output where

(a) The total product is at a maximum

(b) The marginal product of the variable factor is at a maximum

(c) The factors are combined in their best possible proportions

(d) The average product of the variable factors is at a maximum

37. Marginal cost curve always cuts the average cost curve

(a) From below on the falling portion of the AC curve

(b) From below on the rising portion of the AC curve

(c) From below on the minimum point of the AC curve

(d) From below on any point of the AC curve

38. As long as the average cost curve is rising

(a) Marginal cost is more than average cost

(b) Marginal cost is less than average cost

(c) Marginal cost is equal to average cost

(d) Marginal cost has no relation with average cost

39. The firm producing at the minimum point of the AC curve is said to be

(a) Operating under diminishing cost

(b) (b)Making optimum use of plant capacity

(c) Operating at excess capacity

(d) (d)Operating under increasing costs

40. Marginal cost at any production-level is the extra cost of producing

(a) First unit of the commodity

(b) Second unit of the commodity

(c) Central unit of the commodity

(d) One extra unit of the commodity

41. With the expansion of output, the short-run average cost curve, beyond a point, starts rising because

(a) Average fixed cost increases sharply

(b) More production yields lower per unit price

(c) The law of variable proportions applies to short-run production

(d) Sales expenses become much larger

42.The normal long-run average cost curve is influenced by the

(a) Principle of diminishing returns

(b) Economies and diseconomies of large scale production

(c) Principle of constant returns to scale

(d) All of the above

43. The long-run average cost is based on the fact that

(a) None of the factors are variable in the

(b) All factors are perfectly divisible in the long-run

(c) None of the factors is divisible

(d) Management factor is indivisible while all other factors are divisible and can be varied in the long-run

44. Both marginal and average costs are equal to each other when,

(a) Marginal cost is minimum

(b) Average cost is minimum

(c) Both marginal and average costs are minimum

(d) None of the above

45. When average cost is rising, marginal cost

(a) Must be rising

(b) May be rising

(c) May be decreasing

(d) None of the above

46. The opportunity cost of a factor of production is

(a) What it is earning in its present use

(b) What it can earn in the long period

(c) What it can earn in some other use

(d) What has to be paid to retain jt in its present use

47. When average cost is fallings, marginal cost

(a) May also be falling

(b) May be rising

(c) May be rising or falling

(d) Has no relation with average cost

48. Average variable cost rises as the firm approaches

(a) Maximum possible production

(b) Near capacity production

(c) Minimum possible production

(d) None of the above

49. Average fixed cost

(a) Remains the same whatever the level of output

(b) Increases as output mcreases

(c) Diminishes as output increases

(d) All of the above

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

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

(b) Whether the costs are or* are not legally contracted, hence, unchangeable

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

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