

CHAPTER-3: THEORY OF PRODUCTION

1. Returns to scale will be 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 remains the same

2. In a production process, the input combination has 30 per cent of fixed assets, 40 per cent raw material and 10 per cent labour. The quantity of all other inputs except fixed assets has been doubled* The production process would be subject to

- (a) Law of variable proportions
- (b) Returns to scale
- (c) Decreasing returns
- (d) Increasing returns

3. Returns to scale have been classified as constant, increasing and decreasing depending upon the

- (a) Inputs required to produce a given level of Output

(b) Amount of output produced out of a given amount of inputs

- (c) Response of output to change in scale .
- (d) All of the above

4. The returns to scale will be said to exhibit when a proportional change in input combination caused proportionate change in output.

- (a) Increasing returns
- (b) Decreasing returns
- (c) Constant returns
- (d) All of the above

5. Increasing returns imply ———.

- (a) Constant average cost.
- (b) Diminishing cost per unit of output.
- (c) Optimum use of capital and labour.
- (d) External economies

6. When there was increased demand for its goods in the market a firm took a bank overdraft, bought raw materials with that amount and increased production this is a case of

- (a) A short run adjustment
- (b) A long run adjustment

- (c) A financial adjustment
- (d) None of the above

7. As the production increases beyond a point, the vertical distance between the average total cost curve and the average variable cost curve generally

- (a) Diminishes
- (b) Increases
- (c) Remains constant
- (d) Cannot be said without further data

8. The number of units of capital required in order to produce one unit of output is termed as:

- (a) Capital output ratio
- (b) Input output ratio
- (c) Investment ratio
- (d) Capital input ratio

9. The fall in a firm's short run average total cost with an increase in production would be due to which of the following:

- (a) The greater divisibility of fixed assets
- (b) Diminishing returns to fixed factor
- (c) Economies of scale
- (d) Diseconomies of scale

10. For perfect substitutability between factors X and Y

- (a) $MRTS_{xy}$ will be increasing
- (b) $MRTS_{xy}$ will be decreasing
- (c) $MRTS_{xy}$ will be constant
- (d) None of above

11. Which of the following is considered production in economics?

- (a) Saving a child from drowning in a river
- (b) Doctor examining a patient for a fee
- (c) Boating in a lake for recreation
- (d) Painting a picture for pleasure

12. Rakesh inherited 1 acre of land from his grandfather who paid Rs. 10,000 cash for the land back in 1951. Today, land in the area sells for Rs. 2,00,000 per acre. What is the opportunity cost to Rakesh for keeping the land?

- (a) Nothing, since the land was inherited
- (b) Nothing, since the grandfather paid cash.
- (c) Rs. 10,000, since this is what is cost Rajesh's grandfather.
- (d) Rs. 2,00,000, since this is what Rakesh is giving up by keeping the land.

13. When marginal product is zero, total product is

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

14. Short-run cost curve are influenced by

- (a) Principle of returns to scale
- (b) Law of variable proportions
- (c) External and internal economies and diseconomies
- (d) None of these

15. Marginal product becomes negative

- (a) In no circumstances
- (b) When total output turns down
- (c) When total output grows swiftly
- (d) When total output ceases to grow swiftly

16. When the average product is at its maximum the equality can be reached between

- (a) The marginal product and total. Product
- (b) The marginal product and average product
- (c) The marginal product and primary product
- (d) The marginal product and final product

17. In short run the law of variable proportions is also known as the

- (a) Law of increasing returns
- (b) Law of diminishing returns
- (c) Law of constant returns
- (d) Law of return to scale

18. If as a result of 40 % increase in all inputs, the output increases by 25 %, this is a case of

- (a) increasing returns to scale
- (b) constant returns to scale
- (c) Increasing returns to factor
- (d) Decreasing returns to scale

19. The Law of variable proportions comes into being when

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

20. Which of the stages is relevant for a firm which aims at maximum economic efficiency in the law of variable proportion:

- (a) Stage I
- (b) Stage II
- (c) Stage III
- (d) Stage IV

21. In the law of variable proportion in stage III the MP curve becomes negative because of

- (a) Fixed factor quantity exceed variable factor
- (b) Variable factor quantity exceed fixed factor
- (c) Both the factors are used at the highest Proportion
- (d) None of the above

22. Increasing returns imply

- (a) Constant average cost
- (b) Diminishing cost per unit of output
- (c) Optimum use of capital and factor
- (d) External economies

23. Law of diminishing Returns to factors is relevant to

- (a) Short period
- (b) Long period
- (c) Secular period
- (d) Both short and long periods

24. A long run Analysis of production is called

- (a) Economies of scale
- (b) Law_of variable proportion
- (c) Law of increasing return
- (d) Law of Returns to scale

25. The Law to diminishing. Return depends on the assumption that

- (a) Total output is constant
- (b.) The state of technical- knowledge is unchanged.
- (c) Land is the factor kept constant
- (d) Average output declines faster than marginal output

26. The marginal product curve is above the average product curve when the average product .is

- (a) Decreasing
- (b) Increasing
- (c) Becomes constant
- (d) None of the above

27. In the short run Analysis, $MP = 0$ at the level in which

- (a) Marginal product is maximum
- (b) Average product is maximum
- (c) Total product is maximum
- (d) Total profit is maximum

28. The economies and diseconomies of large scale production is determined by

- (a) The long run MC curve
- (b) The long run AC curve
- (c) The normal long run AC curve
- (d) The normal long run TC curve

29. When a substantial increase is made in the plant capacity of a firm, this is known as

- (a) A short run adjustment
- (b) A long run adjustment
- (c) A temporary adjustment
- (d) None of the above

30. The optimum output is the one, which is produced

- (a) By the optimum firm.
- (b) At the maximum average cost
- (c) At the minimum average cost
- (d) At zero marginal cost

31. Increasing returns is not caused by

- (a) Technological advance
- (b) Specialization of labour
- (c) Marketing economies
- (d) Varying factor proportions

32. Increasing return to a factor is because of:

- (a) Division of work (b) Specialization
- (c) Internal economy (d) All the above

33. Which period is called as market period?

- (a) Short run (b) Long run
- (c) Very short run (d) Very long run

34. Production function is a relationship between:

- (a) Price and demand
- (b) Production and cost
- (c) Production and factors
- (d) Supply and production

35. Suppose a firm produces 10 units of output and incurs Rs. 30 per unit variable cost and Rs. 5 in per unit fixed cost. In this case, total costs

- (a) Rs.300 (b) Rs. 35
- (c) Rs.305 (d) Rs.350

36. Which one of the following defines the 'long run' best?

- (a) A period of more than 3 years
- (b) A period in which existing plant and machinery could be completely the dismantled and replaced by new plant and machinery
- (c) A period sufficient to put into operation a method which will produces a given output at the lowest possible cost
- (d) A period necessary to pass the teething trouble and to start earning a profit

37. Marginal product is

- (a) What is produced when all factors of production are employed at optimum efficiency
- (b) The extra output obtained from employing an additional unit of a factor
- (c) What is left to the entrepreneur after he has paid all his expenses
- (d) Annual output of the most efficient in the industry

38. Increasing returns to scale can be explained in terms of

- (a) Fixed scale of plant
- (b) Optimum factor proportions
- (c) External and internal economics of scale
- (d) Labour productivity

39. A firm's fixed inputs include-

- (a) Its cash deposit at the bank
- (b) Its plant and machinery
- (c) Its work force
- (d) Raw material purchased from other firms

40. The point, which shows the maximum marginal product in the total product curve, represents

- (a) Least cost combination
- (b) Producer's equilibrium

(c) Expansion path

(d) Point of inflexion

41. In the long run

- (a) All factors can be used in different proportions
- (b) Management can be re-organized
- (c) A firm can experience returns to scale
- (d) All of these

42. An entrepreneur will stay in business in the long run as long as he meets

- (a) His domestic expenditure
- (b) All costs of production
- (c) Fixed costs of production
- (d) Variable costs of production

43. When average product increases, the marginal Product is

- (a) Less than the average product
- (b) More than the average product
- (c) Equal to the average product
- (d) None of the above

44. Economies of scale means

- (a) Reductions in unit cost of production
- (b) Reductions in unit cost of distribution

- (c) Addition to the unit cost of production
- (d) Reduction in the total cost of production

45. "Production" may be defined as an act of

- (a) Creating utility
- (b) Earning profit.
- (c) Destroying utility
- (d) Providing services

46. Which of the following statements is correct?

- (a) The services of doctors, lawyers, teachers, etc. are not termed as production.
- (b) Man can create matter.
- (c) Accumulation of capital depends solely on income.
- (d) None of the above.

47. The following is not the characteristic of land?

- (a) Land is a free gift of nature
- (b) Land is highly mobile
- (c) The supply of land is perfectly inelastic from the point of view of the economy
- (d) Land varies in fertility and uses.

48. The IMP of a factor

- (a) Is always positive
- (b) Is always either positive or zero
- (c) Can be positive, negative or zero
- (d) Is always negative

49. Which of the following creates time utility?

- (a) Farmer (b) Carpenter
- (c) Trader (d) Driver

50. Which of the statements is correct:

- (a) Land is highly mobile factor of production.
- (b) Man cannot create matter.
- (c) The services of housewife are termed as production in economics.
- (d) None of the above.