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CHAPTER-3 | Production and Costs

QUIZ PART-03

1. Cost in economics is defined as
   A. Only the money spent on labour
   B. Only the money spent on machinery
   C. The total of explicit and implicit costs incurred in production
   D. The profit earned by the firm (C)

Explanation : Cost is the sum of explicit cost (actual expenditure) and implicit cost (imputed value of owner-supplied inputs).

2. Explicit cost includes
   A. Salaries paid to hired labour
   B. Rent on self-owned land
   C. Interest on owner's capital
   D. Value of owner's time (A)

Explanation : Explicit cost refers to actual expenditure like wages, rent, and raw materials, while others are implicit costs.

3. In the short run, total fixed cost (TFC)
   A. Changes with the level of output
   B. Falls as output increases
   C. Remains constant regardless of output
   D. Becomes zero when production starts (C)

Explanation : TFC is independent of output and remains constant at all levels of production.

4. Total cost (TC) is given by
   A. TC = TFC – TVC B. TC = TFC + TVC
   C. TC = TFC × TVC
   D. TC = TFC ÷ TVC (B)

Explanation : Total cost is the sum of total fixed cost and total variable cost (TC = TFC + TVC).

5. The average fixed cost (AFC) curve is
   A. U-shaped B. A straight line
   C. A rectangular hyperbola
   D. Horizontal (C)

Explanation : AFC falls as output increases, forming a rectangular hyperbola.

6. The average variable cost (AVC) curve is typically
   A. U-shaped
   B. Linear
   C. Constant
   D. Rectangular hyperbola (A)

Explanation : AVC first falls due to increasing returns, then rises due to diminishing returns, making it U-shaped.

7. Marginal cost (MC) is defined as
   A. Change in output per unit of input
   B. Additional cost incurred to produce one more unit of output
   C. Average of fixed and variable cost
   D. Minimum of average cost (B)

Explanation : MC is the additional cost a firm incurs for producing one extra unit of output.

8. The short-run marginal cost (SMC) curve is
   A. Upward sloping throughout
   B. Downward sloping throughout
   C. U-shaped
   D. A straight line parallel to the x-axis (C)

Explanation : SMC falls initially due to increasing returns, then rises due to diminishing returns, giving a U-shape.

9. Long-run average cost (LRAC) curve is
   A. U-shaped, falling first then rising
   B. A rectangular hyperbola
   C. A horizontal straight line
   D. Constant throughout (A)

Explanation : LRAC falls initially due to economies of scale, then rises due to diseconomies, hence U-shaped.

10. In the Cobb–Douglas production function $Q = A\cdot L^{\alpha}\cdot K^{\beta}$, if $\alpha + \beta > 1$, it implies
    A. Constant returns to scale
    B. Decreasing returns to scale
    C. Increasing returns to scale
    D. Negative returns to scale (C)

Explanation : If the sum of output elasticities $\alpha + \beta > 1$, the firm experiences increasing returns to scale.

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