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CHAPTER

THEORY OF PRODUCTION AND COST

Meaning of Production

1. What is Production in Economics:

- (a) Creating/Addition of Utility
- (b) Production of food grains
- (c) Creation of services
- (d) Manufacturing of goods

[CA CPT Dec. 2008]

2. Which of the following is considered as production in economics?

- (a) Helping a blind person in crossing the road
- (b) Group dance performance in a college annual function
- (c) Holding a child who is falling from a wall
- (d) Performing an art in a theatre

[CA CPT May 2019]

3. 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.

4. 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.

5. Production may be defined as an act of:

- (a) Creating utility
- (b) Destroying utility
- (c) Earning profit in best way
- (d) Providing services professionally

[Jan. 2021]

6. In Economics, entire process of _____ is nothing but creation of utilities in the form of goods and services.

- (a) Consumption
- (b) Production
- (c) Exchange
- (d) Distribution

[CA CPT June 2017]

7. Which activity is the base of all production activities

- (a) Consumption
- (b) Production

- (c) Exchange
- (d) Investment

[Nov. 2020]

8. Production is defined as:

- (a) Creation of matter
- (b) Creation of utility in matter
- (c) Creation of infrastructural facilities
- (d) None of the above

[CA CPT June 2015]

9. According to _____, Production is the organized activity of transforming resources into finished products in the form of goods and services, and the objective of production is to satisfy the demand of such transformed "resources".

- (a) James Bates
- (b) J.R. Parkinson
- (c) Marshall
- (d) Both (a) and (b)

10. _____ to exchange in the market is an essential component of production.

- (a) Intention
- (b) Ability
- (c) Capacity
- (d) Possibility

11. Production does not include work done _____.

- (a) Within a household out of love & affection
- (b) Voluntary services
- (c) For self consumption
- (d) All of the above.

Factors of Production

12. Factors of production refer to:

- (a) Inputs
- (b) Outputs
- (c) Both (a) & (b)
- (d) Either (a) or (b)

13. _____ are the factors or resources which make it possible to produce goods and services.

- (a) Land, Labour, and Bank
- (b) Capital, Owner and manpower
- (c) Land, Labour and Entrepreneurial ability
- (d) Land, Labour, Capital and Entrepreneurial ability

14. Which of the following factors of production is a free gift of nature and refers to Natural resources?

- (a) Land
- (b) Labour
- (c) Capital
- (d) Entrepreneurial Ability

15. 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 depends on human efforts.
- (d) It is produced by our forefathers.

16. Which of the following is not a characteristics of Land?

- (a) It is a free gift of nature
- (b) It is a mobile factor of production
- (c) It is limited in quantity
- (d) Its productive power is indestructible

[CA CPT Dec. 2012]

17. Which among the following is not a characteristic of land?

- (a) It is an active factor
- (b) It has variety of uses
- (c) Its production powers are indestructible
- (d) Its supply is limited

[CA CPT Dec. 2016]

18. Which of the following statement about factors of production is not true?

- (a) Land is a passive factor
- (b) Land is a free gift of nature
- (c) Land is immobile
- (d) Land is perishable

[CA CPT Nov. 2018]

19. No two pieces of land are alike. They differ in fertility and situation. Therefore, Land is _____.

- (a) Homogenous
- (b) Heterogeneous
- (c) Bitrogenous
- (d) None of these.

20. Which of the following is correct about Land?

- (a) It is mobile
- (b) It has single use
- (c) Its supply is fixed
- (d) It is homogeneous.

21. Supply of land is :

- (a) Elastic
- (b) Perfectly Elastic
- (c) Perfectly Inelastic
- (d) Inelastic

[Nov. 2019]

22. The total supply of Land is _____ from the point of view of the economy. However, it is rela-

tively _____ from the point of view of a firm.

- (a) Perfectly Inelastic, Inelastic
- (b) Perfectly Inelastic, Relatively Elastic
- (c) Perfectly Elastic, Inelastic
- (d) Perfectly Elastic, elastic

23. Labour force wants more _____.

- (a) Facility
- (b) Leisure
- (c) Benefit
- (d) All of the above

[CA CPT Dec. 2009]

24. Which of the following is not a characteristic of labour?

- (a) It is perishable
- (b) It has weak bargaining power
- (c) Labour and Labour power cannot be separated
- (d) Labour is not mobile

[CA CPT Dec. 2016]

25. The concept of "innovative entrepreneurship" was given by

- (a) Adam Smith
- (b) Marshall
- (c) J K Mehta
- (d) Schumpeter

[Nov. 2020]

26. The labour power or efficiency of labour depends upon the _____.

- (a) Laborer's inherent and acquired qualities.
- (b) Features of work environment
- (c) Incentive to work
- (d) All of the above.

27. Labour is highly perishable in the sense that _____.

- (a) A labourer cannot store his labour.
- (b) The life of labour is short.
- (c) The labourer sells his labour against wages, but retains the capacity to work.
- (d) The labour is always low priced.

28. Without the active participation of labour, land and capital may not produce anything. It means labour is _____ factor.

- (a) Passive
- (b) Active
- (c) Working
- (d) Executing

29. Which one of the following is not a necessary function of an entrepreneur?

- (a) Innovations.
- (b) Risk and uncertainty bearing
- (c) Initiating a business enterprise
- (d) Supervision of day-to-day production activities.

[July 2021]

30. Human capital refers to:

- (a) Savings by individuals
- (b) Mobilisation of saving
- (c) Human skills and abilities
- (d) Productive investment

[CA CPT June 2016]

31. _____ Capital performs its function is production in a single use and is not available for future use.

- (a) Circulating
- (b) Fixed

(c) Tangible

(d) Human

32. Which of the following is not a passive factor of production?

- (a) Building
- (b) Machine
- (c) Land
- (d) Labour

[July 2021]

33. Which one of the following may be regarded as a part of social capital?

- (a) Roads
- (b) Bridges
- (c) Machinery
- (d) Both (a) & (b)

34. The three stages of capital formation are :

- (a) Savings, Mobilization of Savings and investment
- (b) Mobilization of Saving, Savings, and investment
- (c) Investment, Saving and mobilization of Saving
- (d) Saving, Investment and mobilization of savings.

35. _____ means a sustained increase in the stock of real capital in a Country.

- (a) Capital formation
- (b) Savings
- (c) Mobilization of Savings
- (d) Mobilization of Capital

36. Which one of the following statements is not correct?

- (a) Land has indestructible powers
- (b) Labour is mobile

- (c) Capital is nature's gift
- (d) Land is a passive factor.

[CA CPT June 2016]

37. Functions of the entrepreneur are:

- (a) Risk bearing
- (b) Initiating a business enterprise and resource co-ordinating
- (c) Introducing new innovations
- (d) All of the above

[CA CPT June 2009]

38. An Entrepreneur undertakes which one of the following functions?

- (a) Initiating a business and resource co-ordination
- (b) Risk or uncertainty bearing
- (c) Innovations
- (d) All of the above

[CA CPT June 2014]

39. Innovation theory of entrepreneurship is propounded by:

- (a) Knight
- (b) Schumpeter
- (c) Max Weber
- (d) Peter Drucker

[CA CPT Dec. 2013]

40. The most important function of an entrepreneur is to _____.

- (a) Innovate
- (b) Bear the sense of responsibility
- (c) Finance
- (d) Earn profit

41. Who has given the concept of Innovative Entrepreneurship?

- (a) Robbins
- (b) Adam Smith

- (c) Schumpeter
- (d) Sweezy

[CA CPT June 2008]

42. The basic minimum objective of all kinds of enterprises is to survive or to stay alive. It may be regarded as _____ objective of the enterprise.

- (a) Organic
- (b) Economic
- (c) Social
- (d) National

43. _____ objective implies the profit maximizing behaviour of the firm.

- (a) Organic
- (b) Economic
- (c) Social
- (d) National

44. _____ mobilizes factors of production, combines them in the right proportion, initiates the process of production and bears the risks involved in it.

- (a) Businessman
- (b) Manager
- (c) CEO
- (d) Entrepreneur

45. Which one of the following function is performed by entrepreneur?

- (a) Initiating Business Enterprise and resource Co-ordination
- (b) Risk-bearing or uncertainty bearing
- (c) Innovations
- (d) All of the above.

46. According to _____, the true function of an entrepreneur is to introduce innovations.

- (a) Schumpeter
- (b) Peter Ducker
- (c) Paul Samuelson
- (d) None of the above.

Production Function

47. 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.

48. A production function is defined as the relationship between _____.

- (a) The quantity of physical inputs and physical output of a firm
- (b) Stock of inputs and stock of output
- (c) Prices of inputs and output
- (d) Price and supply of a firm

[CA CPT Dec. 2012]

49. 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.

50. 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 the utility created by it.
- (d) Relationship between quantity of output produced and time taken to produce the output.

51. Production function is:

- (a) Purely a technical relationship between input & output
- (b) Purely an economic relationship between input & output
- (c) Both the technical & economical relationship between input & output
- (d) None of the above

[CA CPT Dec. 2013]

52. 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.

53. _____ shows the overall output generated at a given level of input:

- (a) Cost function
- (b) Production function
- (c) ISO cost
- (d) Marginal rate of technical substitution

[CA CPT Nov. 2006]

54. Which function shows relationship between input and output?

- (a) Consumption function
- (b) Investment function
- (c) Production function
- (d) Cost function

[CA CPT Dec. 2010]

55. A functional relationship between inputs and output is called.....

- (a) Cost function
- (b) Revenue function
- (c) Production function
- (d) Consumption function

[Nov. 2020]

56. Which of the following statements is true?

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

57. Which one of the following is the assumption underlying any production function?

- (a) Relationship between inputs and outputs exists for a period of time.
- (b) There is a given "State-of-the act" in the production technology.
- (c) Whatever input combinations one included in a particular function, the output resulting from their utilization is at the maximum level.
- (d) All of the above.

58. 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.

59. 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.

60. 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.

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

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

62. Long period production function is related to:

- (a) Law of variable proportions
- (b) Laws of returns to scale
- (c) Law of diminishing returns
- (d) None of the above

[CA CPT June 2015]

63. Long-run does not have:

- (a) Average Cost
- (b) Total Cost
- (c) Fixed Cost
- (d) Variable Cost

[CA CPT Dec. 2008]

64. 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.

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

- (a) An increase in pollution level.
- (b) Diseconomies of scale.
- (c) Economies of scale.
- (d) Constant returns to scale.

Cobb-Douglas Production Function

66. Paul Douglas and Cobb studied the production function of the _____ manufacturing industries.

- (a) American
- (b) Japanese
- (c) British
- (d) Asian

67. In its original form, the Cobb-Douglas production function applies:

- (a) To individual firm
- (b) To selected Firms
- (c) To whole of manufacturing in the USA
- (d) None of the above.

68. In Cobb-Douglas production function, two inputs are:

- (a) Land and Labour
- (b) Labour and Capital
- (c) Capital and Entrepreneur
- (d) Entrepreneur and land

[CA CPT Dec. 2013]

69. The famous Cobb-Douglas production function is based on studies of _____ industries in the United States of America.

- (a) Manufacturing
- (b) Construction
- (c) Consumer
- (d) Aviation

[CA CPT June 2017]

70. If Cobb-Douglas function is given by $Q = KL^aC^b$, then there will be _____ when $(a+b)$ _____

- (a) Increasing returns, > 1
- (b) Increasing returns to scale, > 1
- (c) Diminishing returns, < 1
- (d) Decreasing returns to scale, $= 1$

[CA CPT May 2018]

71. The conclusion drawn from Cobb-Douglas production function is that labour contributed about _____ and capital about _____ of the increase in the manufacturing production.

- (a) $\frac{3^{rd}}{4}, \frac{1^{st}}{4}$
- (b) $\frac{1}{2}, \frac{1}{2}$

(c) $\frac{1^{th}}{4}, \frac{3^{th}}{4}$

- (d) None of the above

[CA CPT Dec. 2015]

72. According to Cobb-Douglas production function, will get _____ returns to scale?

- (a) Constant
- (b) Diminishing
- (c) Increasing
- (d) Any of the above

[CA CPT Nov. 2018]

73. According to Cobb-Douglas production function, labour contribution in increasing manufacturing production is

- (a) $\frac{2}{3}$
- (b) $\frac{3}{4}$
- (c) $\frac{1}{4}$
- (d) $\frac{1}{2}$

[Jan. 2021]

Total, Average and Marginal Product

74. What will be the total product when two labourers are hired according to the table given below?

No. of labourers	Total Product	Marginal product
0	-	-
1	350	350
2	-	250

- (a) 680
- (b) 580

- (c) 350
(d) 230

[CA CPT Dec. 2010]

75. Marginal product is the slope of:

- (a) Total Product
(b) Average Product
(c) Marginal Product
(d) Implicit Product

[Nov. 2019]

76. Consider the following table:

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

What is the total output, when 2 labour are employed?

- (a) 80
(b) 100
(c) 180
(d) 200

[CA CPT June 2008]

77. Which of the following is correct :

- (a) $TFC = TVC - TC$
(b) $TC = TVC - TFC$
(c) $TFC = TC - TVC$
(d) $TC = TFC - TVC$

[Nov. 2019]

78. _____ is the total output resulting from the efforts of all the factors of production combined together at any time.

- (a) Total Product
(b) Average Product

- (c) Marginal Product
(d) None of the above.

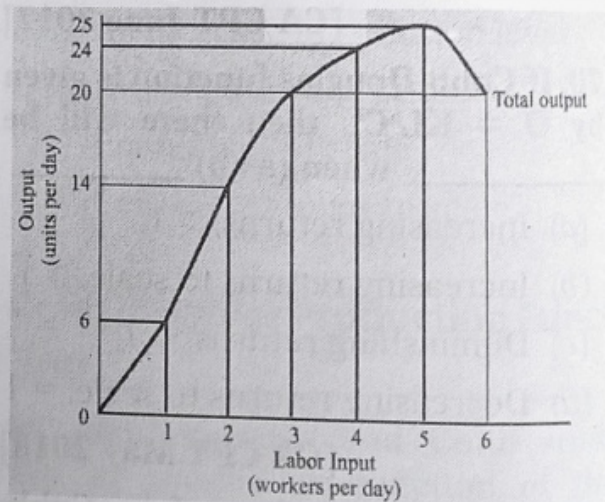
79. Average product is defined as

- (a) Total product divided by the total cost.
(b) Total product divided by marginal product.
(c) Total product divided by the number of units of variable input.
(d) Marginal product divided by the number of units of variable input.

80. 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:

- (a) 50
(b) 100
(c) 150
(d) 200

81. Use the following diagram to answer the question given below it



The marginal physical product of the third unit of labour is _____, the MP of the _____ labour is Negative

- (a) Six; fourth
(b) Six; third
(c) Six; fifth
(d) Six; sixth

82. At the point of inflexion, the marginal product is:

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

[CA CPT May 2007, 2018]

83. Marginal product will be..... at the point of inflexion is

- (a) Minimum
- (b) Maximum
- (c) Negative
- (d) Zero

[Nov. 2020]

84. Suppose the first four units of a variable input generate corresponding total output of 150, 200, 350, 550. What will be the marginal product of the third unit of input?

- (a) 50
- (b) 100
- (c) 150
- (d) 200

[CA CPT Dec. 2016]

85. When Average Product falls, marginal product is..... the Average Product.

- (a) Less than
- (b) More than
- (c) Equal to
- (d) Maximum

[Jan. 2021]

86. The production process described below exhibits.

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

- (a) Constant marginal product of labour.
- (b) Diminishing marginal product of labour.
- (c) Increasing return to scale.
- (d) Increasing marginal product of labour.

87. Marginal product, mathematically, is the slope of the

- (a) Total product curve.
- (b) Average product curve.
- (c) Marginal product curve.
- (d) Implicit product curve.

87A. Which of the following is Correct?

- (a) $MP_n = TP_n - TP_{n-1}$
- (b) $MP_n = MP_n - MP_{n-1}$
- (c) $MP_n = TP_n + TP_{n-1}$
- (d) None of the above.

Use table below to answer questions 88-91.

Output	TP	MP
0	-	-
1	10	10
2	—	8
3	24	-

88. What is the MP of 3rd unit of output?

- (a) 6
- (b) 8
- (c) 10
- (d) 11

[Nov. 2019]

89. What is the total product of producing 2nd unit of output?

- (a) 8
- (b) 10
- (c) 18
- (d) 24

[Nov. 2019]

90. What is the AP of 1st three units of output?

- (a) 8
- (b) 10
- (c) 18
- (d) 72

[Nov. 2019]

91. What is the AP of 1st three units of output?

- (a) 8
- (b) 100
- (c) 108
- (d) 540

[Nov. 2019]

92. Marginal, average and total product of a firm in the short run will not comprise with

- (a) When marginal production is at a maximum, average product is equal to marginal product, and total product is rising
- (b) When average product is maximum, average product is equal to marginal product, and total product is rising
- (c) When marginal product is negative, total product and average product are falling
- (d) When total product is increasing, average product and marginal product may be either rising or falling

[CA CPT May 2019]

93. When average product rises as a result of an increase in the quantity of variable factor, marginal product is:

- (a) Equal to average product
- (b) More than average product
- (c) Less than average product
- (d) Becomes negative

[CA CPT Dec. 2016]

94. The marginal product curve is above the average product curve when the average product is:

- (a) Increasing
- (b) Decreasing
- (c) Constant
- (d) None

[CA CPT Feb. 2007]

95. 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.

96. Which of the following is correct in relation to Marginal Product?

- (a) What is produced units when all factors of production are employed at optimum efficiency?
- (b) The extra output obtained from employing an additional unit of a factor
- (c) The left revenue to the entrepreneur after he has incurred all expenses
- (d) None of the above

[Jan. 2021]

97. 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.

98. 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.

99. 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.

100. If the marginal product of labour is below the average product of labour. It must be true that:

- (a) Marginal product of labour is negative
- (b) Marginal product of labour is zero
- (c) Average product of labour is falling
- (d) Average product of labour is negative

[CA CPT Aug. 2007]

Law of Diminishing Returns

101. 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.

102. Law of variable proportion is valid when:

- (a) Only one input is fixed and all other inputs are kept variable
- (b) All factors are kept constant
- (c) All inputs are varied in the same proportion
- (d) None of these

[CA CPT Nov. 2007]

103. Diminishing marginal returns implies:

- (a) Decreasing average variable costs
- (b) Decreasing marginal costs
- (c) Increasing marginal costs
- (d) Decreasing average fixed costs

[Nov. 2019]

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

- (a) 50, 50, 50, 50
- (b) 50, 110, 180, 260
- (c) 50, 100, 150, 200
- (d) 50, 90, 120, 140

[Nov. 2019]

105. In short run the Law of variable proportions is also known as

.....

- (a) Law of increasing returns
- (b) Law of diminishing returns
- (c) Law of decreasing returns
- (d) Law of constant returns

[Jan. 2021]

106. Production activity in the short period is analysed with the help of:

- (a) Law of variable proportion
- (b) Laws of returns to scale
- (c) Both (a) & (b)
- (d) None of the above

[CA CPT Dec. 2012]

107. The Law of Variable Proportions is associated with:

- (a) Short period
- (b) Long period
- (c) Both short and long periods
- (d) Neither short nor long period

[CA CPT June 2016]

108. 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.

[Nov. 2019]

109. 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.

110. Law of increasing returns is applicable because of _____.

- (a) Indivisibility of factors.
- (b) Specialization.
- (c) Economies of scale.
- (d) Both (a) & (b) above.

[CA CPT June 2010]

111. In the first stage of law of variable proportions, total product increases at the _____.

- (a) Decreasing rate
- (b) Increasing rate
- (c) Constant rate
- (d) Both (a) and (b).

[CA CPT Dec. 2010]

112. During 2nd stage of law of Diminishing returns:

- (a) MP and TP is maximum
- (b) MP and AP are decreasing
- (c) AP is negative
- (d) TP is negative

[CA CPT June 2008]

113. A rational producer will produce in the stage in which marginal product is positive and :

- (a) $MP > AP$
- (b) $MP = AP$
- (c) $MP < AP$
- (d) MP is zero

[CA CPT June 2016]

114. Diminishing marginal returns implies:

- (a) Decreasing average variable costs
- (b) Decreasing marginal costs
- (c) Increasing marginal costs
- (d) Decreasing average fixed costs

[CA CPT May 2007]

115. The phenomenon of diminishing returns rests upon the _____ of the fixed factor:

- (a) Divisibility
- (b) Flexibility
- (c) Indivisibility
- (d) None of these

116. Law of diminishing returns is applicable in:

- (a) Manufacturing industry
- (b) Agriculture
- (c) Neither (a) nor (b)
- (d) Any economic activity at a point of time.

[CA CPT June. 2009, 2010, June 2012]

117. In the third of the three stages of production:

- (a) The marginal product curve has a positive slope.
- (b) The marginal product curve lies completely below the average product curve.

- (c) Total product increases.
- (d) Marginal product is positive.

118. Diminishing marginal returns implies

- (a) Decreasing average variable costs
- (b) Decreasing marginal costs
- (c) Increasing marginal costs
- (d) Decreasing fixed costs.

[CA CPT Dec. 2015, May 2019]

119. 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

[CA CPT May 2018]

120. 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.

Returns to Scale

121. The concept of Returns to Scale is related with:

- (a) Very short period
- (b) Short period

- (c) Long period
- (d) None of above

[CA CPT June 2012, 2013]

122. The Law of returns to scale is.

- (a) Short run
- (b) Long run
- (c) Short and Long run
- (d) Medium run

[Jan. 2021]

123. Increasing returns to scale can be explained in terms of:

- (a) External and internal economies
- (b) External and internal dis-economies
- (c) External economics and internal dis-economies
- (d) All of these

[CA CPT Feb. 2007, May 2018]

124. Increasing returns to scale occurs due to:

- (a) Economies of scale
- (b) Specialization
- (c) Indivisibility of factors
- (d) All of these

[CA CPT Dec. 2009]

125. 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.

126. Returns to scale will 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 remain the same

[CA CPT Feb. 2008]

127. 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

[Nov. 2019]

128. Which of the following is the reason of the working of law of increasing returns?

- (a) Fuller utilisation of fixed factors
- (b) Indivisibility of the factors
- (c) Greater specialization of labour
- (d) All of the above

[CA CPT June 2013]

129. Consider the following combinations of inputs and outputs:

This production technology satisfies

Labour	Capital	Output
5	10	1
6	12	2
7	14	3
8	16	4
9	18	5
10	20	6

- (a) Increasing returns to scale
- (b) Diminishing returns to scale
- (c) Constant returns to scale
- (d) Increasing returns initially, following by decreasing returns to scale.

[CA CPT Feb. 2008]

130. Linear homogeneous production function is based on:

- (a) Increasing returns to scale
- (b) Decreasing returns to scale
- (c) Constant returns to scale
- (d) None of the above

[CA CPT Dec. 2014, May 2018]

131. 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%.

132. In Cobb-Douglas Production function $[Q = KL^aC^b]$, there will be increasing returns to scale if :

- (a) $a + b > 1$
- (b) $a + b = 1$
- (c) $a + b = 0$
- (d) $a + b < 1$

133. A change in scale means that _____ factors of production are increased or decreased in the same production.

- (a) Two
- (b) Three
- (c) No
- (d) All

134. Increase in all input leading to less than proportional increase in output is called _____.

- (a) Increasing returns to scale
- (b) Decreasing returns to scale
- (c) Constant returns to scale
- (d) Both increasing and decreasing returns to scale

[CA CPT Feb. 2008]

135. When output decreases by 20% due to increase in inputs by 20%, this stage is called the law of _____.

- (a) Increasing returns to scale.
- (b) Decreasing returns to scale.
- (c) Constant returns to scale.
- (d) None of the above.

[CA CPT June 2010]

136. Constant Returns to Scale are also called as _____ Production Function.

- (a) Linear
- (b) Curvilinear
- (c) Linear Homogenous
- (d) Curvilinear Homogenous

137. With a view to increase his production, Hariharan a manufacturer of shoes, increases all the factors of production in his unit by 100%. But at the end of the year, he finds that instead of an increase of 100%, his production has increased by only 80%. Which law of returns to scale is operating in this case?

- (a) Increasing returns to scale
- (b) Decreasing returns to scale
- (c) Constant returns to scale
- (d) None of the above

[CA CPT June 2014]

138. When output increase in a smaller proportion with an increase in all inputs _____ returns to scale set in.

- (a) Increasing
- (b) Decreasing
- (c) Constant
- (d) Circular

Production Optimization

139. ISO quants are equal to:

- (a) Product Lines
- (b) Total utility lines
- (c) Cost lines
- (d) Revenue lines

[CA CPT Nov. 2006, May 2018]

140. Among the following statements which is incorrect in relation to isoquants

- (a) These are negatively sloped
- (b) These are concave to origin
- (c) These are not intersecting
- (d) These are convex to origin

[Nov. 2020]

141. ISO quants are also known as:

- (a) Production possibility curves
- (b) Indifference curves
- (c) Production indifference curves
- (d) None of the above

[CA CPT June 2016]

142. An ISO quant is _____ to an ISO cost line at equilibrium point:

- (a) Convex
- (b) Concave
- (c) Tangent
- (d) Perpendicular

[CA CPT May 2007]

143. Large production of goods would lead to higher production in future.

- (a) Consumer Goods
- (b) Capital Goods
- (c) Agricultural Goods
- (d) Public Goods

[Nov. 2019]

144. An ISO quant shows

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

145. ISO quants are negatively sloped & _____ to the origin due to _____ Marginal Rate of Technical Substitution (MRTS).

- (a) Convex, Increasing
- (b) Convex, Decreasing
- (c) Concave, Increasing
- (d) Concave, Decreasing

146. Which of the following statement is true in relation to an ISO Quant Curve?

- (a) It represents those combination of two factors of production that will give the same level of output
- (b) It represents those combinations of all the factors that will give the same level of output
- (c) It slopes upward to the right
- (d) It can touch either axis

[CA CPT June 2015]

COST CONCEPTS**Accounting Cost Concepts and Economic Costs**

147. Suppose, the total cost of production of commodity X is ₹ 1,25,000. Out of this cost implicit cost is ₹ 35,000 and normal profits is ₹ 25,000. What will be the explicit cost of commodity X?

- (a) 90,000
- (b) 65,000
- (c) 60,000
- (d) 1,00,000

[CA CPT Aug. 2007, Dec. 2011, June 2013]

148. Which of the following is an example of "explicit cost"?

- (a) The wages a proprietor could have made by working as an employee of a large firm.
- (b) The income that could have been earned in alternative uses by the resources owned by the firm.
- (c) The payment of wages by the firm.
- (d) The normal profit earned by a firm.

149. Which of the following is an example of an "implicit cost"?

- (a) Interest that could have been earned on retained earnings used by the firm to finance expansion.
- (b) The payment of rent by the firm for the building in which it is housed.
- (c) The interest payment made by the firm for funds borrowed from a bank.
- (d) The Payment of wages by the firm.

150. Implicit cost can be defined as

- (a) Money payments made to the non-owners of the firm for the self-owned factors employed in the business and therefore not entered into books of account.
- (b) Money not paid out to the owners of the firm for the self owned factors employed in a business and therefore not entered into books of account.
- (c) Money payments which the self owned and employed resources could have earned in their next best alternative employment and therefore entered into books of account.
- (d) Money payments which the self owned and employed resources earn in their best use and therefore entered into books of account.

151. Total Cost = Explicit cost + Implicit cost +

- (a) Super Normal Profit
- (b) Normal Profit
- (c) Super Normal Losses
- (d) Average Fixed Cost

[Nov. 2019]

152. Implicit cost may be defined as the:

- (a) Costs which do not change over a period of time
- (b) Costs which the firm incurs but doesn't disclose
- (c) Payment to the non-owners of the firm for the resources
- (d) Money payment which the self employed resources could have

earned in their best alternative employment.

[CA CPT Nov. 2007]

153. Which of the following is including in cost of production and is termed as accounting cost?

- (a) Wages to workers employed
- (b) Prices for the raw materials
- (c) Fuel and Power Used
- (d) All of these

154. Which of the following Statements is false?

- (a) Economic costs include the opportunity costs of the resources owned by the firm.
- (b) Accounting costs include only explicit costs.
- (c) Economic profit will always less than accounting profit if resources owned and used by the firm have any opportunity costs.
- (d) Accounting profit is equal to total revenue less implicit costs.

Accounting profit is equal to total revenue less implicit cost

Accounting profit = TR - Implicit Cost

[Jan. 2021]

155. Economic cost excludes which of the following :

- (a) Accounting cost + explicit cost
- (b) Accounting cost + implicit cost
- (c) Explicit cost + Implicit cost
- (d) Accounting cost + opportunity cost

[CA CPT May 2007]

156. The cost of resources owned and employed by the entrepreneur himself in his business is termed as _____

cost.

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

[CA CPT June 2012]

157. Cost in terms of pain, discomfort, disability involved in supplying the various factors of production by their owners are termed as _____.

- (a) Social cost
- (b) Explicit cost
- (c) Real cost
- (d) Implicit cost

[CA CPT June 2012]

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

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

159. Accounting cost is _____ of Economic cost

- (a) Equal to
- (b) Less than
- (c) More than
- (d) Not Included

[CA CPT Nov. 2018]

160. Economic Costs comprises

- (a) Accounting Costs
- (b) Implicit Cost
- (c) Explicit Cost
- (d) Both (a) & (b)

161. Which of the following will be included in implicit Cost?

- (a) Normal return on money Capital invested by the entrepreneur himself in his own business.
- (b) The wages or Salary not paid to the entrepreneur, but could have earned if the services has been sold somewhere else.
- (c) Wages or Salary paid to workers
- (d) Both (a) and (b)

162. Accounting Costs are also called as _____ costs whereas the cost of factors owned by the entrepreneur himself and employed in his own business is called as _____ costs.

- (a) Explicit, implicit
- (b) Implicit, Explicit
- (c) Economic, Non-Economic
- (d) Explicit, Non-Economic.

Outlay costs and Opportunity Costs

163. Outlay Costs involve _____ expenditure of funds on wages, material, returns interest, etc.

- (a) Actual
- (b) Expected
- (c) Fixed
- (d) Planned

164. Outlay costs involve _____ expenditure at some point of time and

hence _____ recorded in the books of account.

- (a) Financial, are not
- (b) Financial, are
- (c) Non-Financial, are not
- (d) Non- Financial, are

165. Opportunity cost is:

- (a) Direct cost
- (b) Total cost
- (c) Accounting cost
- (d) Cost of forgone opportunity

[CA CPT Nov. 2006]

166. The cost of one thing in terms of alternative given up is known as:

- (a) Opportunity Cost
- (b) Real Cost
- (c) Production Cost
- (d) Physical Cost

[CA CPT June 2017, May 2018]

167. If the market price of good is more than the opportunity cost of producing it, then:

- (a) The market price of the product will increase in the long run
- (b) Producers will increase supply in the long run
- (c) Resources will flow away from production of the good, causing supply to decline with the passage of time
- (d) The situation will remain unchanged as long as supply and demand remain in balance.

[CA CPT June 2016]

168. In which of the following cases opportunity cost concept applies?

- (a) Resources have alternative uses

- (b) Resources have limited uses
- (c) Resources have no use
- (d) None of the above.

[CA CPT June 2013]

169. Opportunity Cost is:

- (a) Marginal cost
- (b) Variable cost
- (c) Total fixed cost
- (d) None of these

[CA CPT May 2018]

170. Opportunity Cost is _____

- (a) Recorded in the books of account
- (b) Sacrificed alternative
- (c) Both (a) and (b)
- (d) None of the above

[CA CPT May 2019]

171. The concept of opportunity cost has to be considered whenever :

- (a) Resources are scarce
- (b) Decision involving choice of one option over other(s) is involved
- (c) Both (a) & (b)
- (d) Neither (a) nor (b)

172. Opportunity cost is the _____ value that is foregone in choosing one activity over the _____ alternative.

- (a) Subjective, other
- (b) Subjective, next best
- (c) Principal, other
- (d) Principal, next best

173. Opportunity Cost is the cost of the _____ opportunity and involves a comparison between the policy that was _____ and the policy that was _____.

- (a) Other, Chosen, Should be chosen
- (b) Missed, Chosen, should be chosen
- (c) Missed, Chosen, rejected
- (d) None of these

Direct and Indirect Costs

174. Direct Cost is also known as :

- (a) Indirect Cost
- (b) Traceable Cost
- (c) Opportunity Cost
- (d) Accounting Cost.

[CA CPT June 2010, June 2013]

175. _____ costs are the costs that are readily identified and are traceable to a particular product, operations or plant .

- (a) Direct Cost
- (b) Traceable Cost
- (c) Indirect Cost
- (d) Both (a) & (b)

176. _____ may vary according to the changes accruing to the product, process or machine.

- (a) Direct Cost
- (b) Implicit-Cost
- (c) Indirect Cost
- (d) Non Traceable Cost.

177. Indirect Costs are not easily and definitely identifiable in relation to a plants, products, process or department. These are _____ changed to different jobs or products in standard accounting practice.

- (a) Not
- (b) Never
- (c) Nevertheless
- (d) Cannot

178. Identify the indirect Cost.

- (a) Common cost incurred for general operations
- (b) Wages paid to worker
- (c) Material Purchased
- (d) Commission Paid

Incremental Cost and Sunk Costs

179. Theoretically, incremental costs are related to the concept of _____.

- (a) Marginal Cost
- (b) Fixed Cost
- (c) Judgmental Cost
- (d) Semi Variable Cost.

180. Which of the following is part of incremental costs?

- (a) Change in product line
- (b) Replacement of worn-out machinery
- (c) Buy a new production facility
- (d) All of these

181. _____ refer to those costs which are already incurred once and for all and cannot be recovered.

- (a) Sunk Cost
- (b) Fixed Cost
- (c) Variable Cost
- (d) Incremental

182. Which one of the following is an example of Sunk Cost?

- (a) Expenses on advertising
- (b) Research & Development Expenditure
- (c) Specialized equipment & fixed facilities
- (d) All of these.

Historical Costs and Replacement Costs

183. Which of the following is incurred first?

- (a) Historical Cost
- (b) Replacement Cost
- (c) Realized Value
- (d) None of these

184. _____ Cost refers to the cost incurred in the past on the acquisition of a productive asset.

- (a) Current Cost
- (b) Historical Cost
- (c) Future Cost
- (d) Desired cost.

185. A Company is willing to change its existing Machinery (5 years old) by a new machinery at a cost of ₹ 10,00,000. The cost of ₹ 10,00,000 may be regarded as:

- (a) Historical Cost
- (b) Replacement Cost
- (c) New Cost
- (d) Market Cost

186. Other things remaining the same, an increase in price will make _____ cost higher than _____ cost.

- (a) Historical, Replacement
- (b) Replacement, Historical
- (c) Historical, reliable
- (d) Fixed, Historical.

187. Usually in the case of continuous decrease in price of an asset, which one of the following shall be the highest?

- (a) Replacement Cost
- (b) Historical Cost
- (c) Realisable Value
- (d) Variable Cost.