CA Foundation
Business Economics
Theory of Production and Cost

Q. No.	Questions/Answers	Marks
1.	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 and J.R. Parkinson b) Samuelson c) Nash Jr. and Reinhard Selten d) None of the above	**1**
Ans.	**a) James Bates and J.R. Parkinson.** **Because:** According to **James Bates and J.R. Parkinson** "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". **Why other options are wrong?** ✓ According to Samuelson, "The relationship between the maximum amount of output that can be produced and the input required to make that output. It is defined for a given state of technology i.e., the maximum amount of output that can be produced with given quantities of inputs under a given state of technical knowledge." ✓ Other option is irrelevant.	
2.	Which activity in economics leads to satisfaction of human wants? a) Consumption b) Production c) Distribution d) All of the above	**1**
Ans.	**b) Production.** **Because**: Production is a process of combining various material inputs and immaterial inputs in order to make something for consumption. In economics term production **creates utility** towards goods and services, hence leads to satisfaction of human wants. **Why other options are wrong?** ✓ **Consumption** is the process of Usage goods and services for the satisfaction. ✓ **Distribution** is the way total output, income, or wealth is distributed among individuals or among the factors of production.	
3.	Work of a Chartered accountant does not result in any tangible output. Hence in economics it will not be considered as production activity. This statement is: a) True b) False c) May or may not be d) None of the above	**1**
Ans.	**b) False.** **Because:** The production process **need not necessarily involve conversion of physical inputs into physical output**. For example, production of services such as those of lawyers, doctors, musicians, consultants etc. involves intangible inputs to produce intangible output.	

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4.	Changing the form of a log of wood into a table or changing the form of iron into a machine. This may be called: a) Time utility b) Personal utility c) Place utility d) Form utility	**1**
Ans.	**d) Form utility.** **Because:** Changing the **form of natural resources**, e.g., changing the form of a log of wood into a table or changing the form of iron into a machine. This may be called **conferring utility of form.** **Why other options are wrong?** ✓ Making available materials at times when they are not normally available e.g., harvested food grains are stored for use till next harvest. Canning of seasonal fruits is undertaken to make them available during off-season. This may be called conferring of **utility of time.** ✓ Making use of personal skills in the form of services, e.g., those of organisers, merchants, transport workers etc. is **personal utility**. ✓ Extraction from earth e.g., removal of coal, minerals, gold and other metal ores from mines and supplying them to markets is **place utility**.	
5.	Extraction from earth e.g., removal of coal, minerals, gold and other metal ores from mines and supplying them to markets is an example of: a) Place utility b) Time utility c) Form utility d) All of the above	**1**
Ans.	**a) Place utility.** **Because**: Extraction from earth e.g., **removal of coal, minerals, gold and other metal ores** from mines and supplying them to markets is an example of **place utility.** **Why other options are wrong?** ✓ Harvested food grains are stored for use till next harvest is an example of **time utility.** ✓ Changing the form of a log of wood into a table or changing the form of iron into a machine is an example of **form utility.**	
6.	____ refers to making use of personal skills in the form of services: a) Time utility b) Place utility c) Form utility d) Personal utility	**1**
Ans.	**d) Personal utility.** **Because**: Personal utility refers to **making use of personal skills** in the form of services, e.g. Merchants, organisers etc. **Why other options are wrong?** ✓ **Time utility** refers to **making available material at times when they are normally not available**, e.g. harvested food grains are stored for use till next harvest. ✓ **Place utility** refers to **changing the place of resources**, from the place where they are of little or no use to another place where they are of greater use, e.g. transferring of sand from rivers to houses. ✓ **6**	
7.	Production in economics is defined as: a) Creation of utility in matter b) Creation of matter c) Creation of infrastructure d) None of the above	**1**

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Ans.	**a) Creation of utility in matter.** **Because:** Production can also be defined as **creation or addition of utility**. For example, when a carpenter produces a table, he does not create the matter of which the wood is composed of; he only transforms wood into a table. By doing so, he adds utility to wood which did not have utility before.	
8.	Production activity includes: a) Services b) Mining c) Manufacturing d) All of the above	**1**
Ans.	**d) All of the above.** **Because:** Production is any **economic activity which converts inputs into outputs** which are capable of satisfying human wants. Whether it is making of material goods or providing a service. **Hence,** all options are correct.	
9.	The production function is the relationship between: a) Input and output b) Cost and revenue c) Both (a) and (b) d) Neither (a) nor (b)	**1**
Ans.	**c) Both (a) and (b).** **Because**: Production is any economic activity which **converts inputs** (related to cost) **into outputs** (related to revenue) which are capable of satisfying human wants. Hence, production function is the **relationship between input & output and cost & revenue.**	
10.	An _____is a good or service which a firm buys for use in its production process: a) Output b) Input c) Revenue d) All of the above	**1**
Ans.	**b) Input.** **Because**: In production process **outputs takes the form of volume of goods or services and inputs** are the different factor of production like land labour, capital etc. Other options are irrelevant.	
11.	Factors of production includes: a) Land and labour b) Capital c) Entrepreneurial ability d) All of the above	**1**
Ans.	**d) All of the above.** **Because**: **Land, labour, capital and entrepreneurial ability are the four factors or resources** which make it possible to produce goods and services. Even a small piece of bread cannot be produced without the active participation of these factors of production.	
12.	Total supply of land is _______ from the point of view of the economy: a) Perfectly inelastic b) Perfectly elastic c) Elastic d) Relatively elastic	**1**
Ans.	**a) Perfectly inelastic.** **Because**: Land is **strictly limited** in quantity. It is different from other factors of production in that, no change in demand can affect the amount of land in existence. In other words, **the total supply of land is perfectly inelastic from the point of view of the economy.** Supply of land is **relatively elastic from the point of view of a firm**.	

13.	According to _____, land has certain original and indestructible powers and these properties of land cannot be destroyed: a) Ricardo b) James Bates c) J.R. Parkinson d) All of the above	**1**
Ans.	**a) Ricardo.** **Because:** According to Ricardo, land has certain original and indestructible powers and these properties of land cannot be destroyed i.e. land is permanent in nature and cannot be destroyed. Other options are irrelevant.	
14.	Land is permanent means: a) Cannot be destroyed. b) Cannot be used for production activity c) Cannot be used for varied purposes d) Land is mobile	**1**
Ans.	**a) Cannot be destroyed.** **Because**: Land is **permanent** in nature and **cannot be destroyed**. It can be used for various production activity and is **immobile** i.e., cannot be shifted physically from one place to another.	
15.	Which of the following is not the characteristic of land? a) Land is a passive factor b) Land is immobile c) Supply of land is not fixed d) Land is heterogeneous	**1**
Ans.	**c) Supply of land is not fixed.** **Because**: Characteristics of land are: Land is a **passive factor**, land is **immobile, supply of land is fixed**, land is **heterogeneous**.	
16.	If a person sings against payment of some fee, then this activity signifies: a) Land b) Labour c) Capital d) Entrepreneurship	**1**
Ans.	**b) Labour.** **Because:** If a **person sings against payment of some fee, then this activity signifies labour**. On the other hand, if a person sings just for the sake of pleasure, it is not considered as labour despite the exertion involved in it. Other options are irrelevant here.	
17.	Which of the following is not the characteristic of labour? a) Labour is perishable b) Labour has strong bargaining power c) Labour is mobile d) Labour is inseparable from the labourer	**1**
Ans.	**b) Labour has strong bargaining power.** **Because:** Characteristics of labour are: Labour is **perishable**. In other words, a labourer cannot store his labour. **Labourers have poor bargaining power and can be exploited and forced to accept lower wages**. Labour is a **mobile factor**. Apparently, workers can move from one job to another or from one place to another. Labour is **inseparable from the labourer**: A labourer is the source of his own labour power.	
18.	_____ is that which exists in a durable shape and renders a series of services over a period of time: a) Fixed capital b) Real capital c) Human capital d) Circulating capital	**1**

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Ans.	**a) Fixed capital.** **Because:** Fixed capital is that which exists in a **durable shape and renders a series of services over a period of time**. For example tools, machines, etc. **Why other options are wrong?** ✓ **Real capital** refers to physical goods such as building, plant, machines, etc. ✓ **Human capital** refers to human skill and ability. This is called human capital because a good deal of investment goes into creation of these abilities in humans. ✓ **Circulating capital** is another form of capital which performs its function in production in a single use and is not available for further use. For example, seeds, fuel, raw materials, etc.	
19.	Building, plant, machines, etc. are examples of: a) Human capital b) Real capital c) Circulating capital d) Social capital	**1**
Ans.	**b) Real capital.** **Because:** Real capital refers to **physical goods** such as building, plant, machines, etc. **Why other options are wrong?** ✓ **Human capital** refers to human skill and ability. ✓ **Circulating capital** is another form of capital which performs its function in production in a single use and is not available for further use. For example, seeds, fuel, raw materials, etc. ✓ **Social Capital** is what belongs to the society as a whole in the form of roads, bridges, etc.	
20.	Which capital performs its function in production in a single use and is not available for further use? a) Social Capital b) Tangible capital c) Intangible capital d) Circulating capital	**1**
Ans.	**d) Circulating capital.** **Because:** Circulating capital is another form of capital which performs its function in production in a single use and is not available for further use. For example, seeds, fuel, raw materials, etc. **Why other options are wrong?** ✓ **Tangible capital** can be perceived by senses whereas **intangible capital** is in the form of certain rights and benefits which cannot be perceived by senses. For example, copyrights, goodwill, patent rights, etc. ✓ **Social Capital** is what belongs to the society as a whole in the form of roads, bridges, etc.	
21.	Which of the following match is incorrect? a) Social capital → personal property b) Circulating capital → seeds, fuel, raw materials c) Intangible capital → copyrights, goodwill, patent rights d) Human capital → skill and ability	**1**
Ans.	**a) Social capital → personal property.** **Because:** Social capital belongs to the **society as a whole** in the form of roads, bridges, etc. It **does not include personal property**.	
22.	Capital has been rightly defined as: a) Produced means of production b) Man-made instruments of production c) Both (a) and (b) d) None of the above	**1**

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Ans.	**c) Both (a) and (b).** **Because**: Capital has been rightly defined as **'produced means of production' or 'man-made instruments of production'**. In other words, capital refers to all man made goods that are used for further production of wealth.	
23.	Capital formation refers to: a) Decrease in GDP b) Increase in GDP c) Sustained increase in the stock of real capital in a country d) Allocation of resources	**1**
Ans.	**c) Sustained increase in the stock of real capital in a country.** **Because:** Capital formation means a **sustained increase in the stock of real capital in a country**. In other words, capital formation involves production of more capital goods like, machines, tools, factories, transport equipments, electricity etc.	
24.	_____ is an implicit cost of production: a) Electricity charges b) Wages of labour c) Interest on owned money capital d) None of the above	**1**
Ans.	**c) Interest on owned money capital.** **Because:** Interest on owned money capital is an **implicit cost** as it is the cost of self-supplied factors of production. **Why other options are wrong?** ✓ **Electricity charges and wages of labour are explicit cost**s as it includes all the payments and charges made by the entrepreneur to the suppliers of various productive factors.	
25.	Capital is a _____concept which yields a periodical income which is a _____ concept: a) Stock, stock b) Stock, flow c) Flow, flow d) Flow, stock	**1**
Ans.	**b) Stock, flow.** **Because:** Capital is a **stock concept (measured at a point of time)** which yields a periodical income which is a **flow concept (measured at a period of time).**	
26.	"Capital formation is also known as investment". This statement is: a) True b) False c) May or may not be d) None of the above	**1**
Ans.	**a) True.** **Because:** Capital formation involves **production of more capital goods** like, machines, tools, factories, transport equipments, electricity etc. which are used for **further production of goods** and **hence,** is also **known as investment**.	
27.	Which of the following statement is incorrect? a) Availability of appropriate financial products and institutions is a necessary precondition for mobilisation of savings b) The ability to save depends upon the expenditure of an individual c) The process of capital formation gets completed only when the real savings get converted into real capital assets d) None of the above	**1**
Ans.	**b) The ability to save depends upon the expenditure of an individual.** **Because**: The ability to save depends upon the income of an individual. Higher incomes are generally followed by higher savings. Other options are irrelevant.	

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28.	Capital formation is essential for: a) Growth of the economy b) Increasing the efficiency of production c) Expansion of output d) All of the above	**1**
Ans.	**d) All of the above.** **Because:** Capital formation means a sustained increase in the stock of real capital in a country which may leads to **growth of the economy, increases the efficiency of production and expansion of output**. Hence, all options are correct.	
29.	In today's world of specialisation and separation of ownership and management, the task of the entrepreneur is to: a) Decision- making of routine and non-routine types b) Initiate production work c) Bear the risks d) Both (b) and (c)	**1**
Ans.	**d) Both (b) and (c).** **Because:** In these days of specialisation and separation of ownership and management, the tasks performed by a manager or organiser have become different from that of the entrepreneur. While organisation and management involve decision- making of routine and non-routine types, the task of the entrepreneur is to initiate production work and to bear the risks involved in it.	
30.	According to ______,the true function of an entrepreneur is to introduce innovations: a) Schumpeter b) James Bates c) Reinhard Selten d) Hicks and Allen	**1**
Ans.	**a) Schumpeter.** **Because**: According to **Schumpeter,** the true function of an entrepreneur is to introduce innovations. Innovation refers to commercial application of a new idea or invention to better fulfilment of business requirements. **Other options are irrelevant here.**	
31.	Supernormal profit, also called as: a) Economic profit b) Abnormal profit c) Normal profit d) Both (a) and (b)	**1**
Ans.	**d) Both (a) and (b).** **Because**: Supernormal profit, also called **economic profit or abnormal profit** is over and above normal profits. It is earned when total revenue is greater than the total costs. Total costs in this case include a reward to all the factors, including normal profit.	
32.	_______theory of sales maximisation holds that sales revenue maximisation rather than profit maximisation is the ultimate goal of the business firms: a) Baumol's b) A. A.Berle's c) H A Simon's d) Williamson's	**1**

Ans.	**a) Baumol's.** **Because:** Baumol's theory of sales maximisation holds that **sales revenue maximisation rather than profit maximisation is the ultimate goal of the business firms**. He cites empirical evidence for his hypothesis that sales rank ahead of profits as the main objective of the enterprise. He asserts that it is quite a common experience that when an executive is asked about his business, he will answer that his sales have been increasing (or decreasing) and talks about profits only as an afterthought. **Why other options are wrong?** ✓ **A. Berle and G.C. Means** pointed out that in large business corporations, management is separated from ownership and therefore the managers enjoy discretionary powers to set goals of the firm they manage. ✓ **Williamson's model** of maximisation of managerial utility function is an important contribution to managerial theory of firms' behaviour. The owners (shareholders) of joint stock companies prefer profit maximisation: but managers maximise their own utility function subject to a minimum profit, rather than maximising profit. ✓ **H.A Simon** argues that firms have 'satisficing' behaviour and strive for profits that are satisfactory.	
33.	Economic profit is the difference between: a) Total revenue and total cost of the firm b) Total revenue and Average cost of the firm c) Marginal revenue and marginal cost of the firm d) None of the above	**1**
Ans.	**a) Total revenue and total cost of the firm.** **Because:** Economic profit is the difference between total revenue and total costs, but total costs here costs include both explicit and implicit costs. Other options are irrelevant here.	
34.	Which of the following statement is correct? a) Accounting profit considers only explicit costs b) Economic profit reflects implicit costs c) Normal profits include high rate of return on capital invested by the entrepreneur d) Economic profit is generally higher than the accounting profit	**1**
Ans.	**a) Accounting profit considers only explicit costs.** **Because: Accounting profit considers only explicit costs** while **economic profit reflects explicit and implicit costs** i.e. the cost of self-owned factors used by the entrepreneur in his own business. **Why other options are wrong?** ✓ **Economic profit includes opportunity costs** associated with self-owned factors, not implicit costs. ✓ **Normal profits include normal rate of return on capital invested** by the entrepreneur, remuneration for the labour and the reward for risk bearing function of the entrepreneur. ✓ Economic profit is generally **lower than the accounting profit**.	
35.	Which of the following is social objective of an enterprise? a) To provide the employees an opportunity to participate in decision-making in matters affecting them b) To remove inequality of opportunities and provide fair opportunity to all to work and to progress c) To maintain a continuous and sufficient supply of unadulterated goods and articles of standard quality d) To produce according to national priorities	**1**

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Ans.	**c) To maintain a continuous and sufficient supply of unadulterated goods and articles of standard quality.** **Because:** The important **social objectives of business** are: to **maintain a continuous and sufficient supply of unadulterated goods and articles of standard quality,** to avoid profiteering and anti-social practices, to create opportunities for gainful employment for the people in the society, to ensure that the enterprise's output does not cause any type of pollution - air, water or noise. **Why other options are wrong?** ✓ The important **human objectives** are: to provide fair deal to the employees at different levels, to develop new skills and abilities and provide a work climate in which they will grow as mature and productive individuals, to **provide the employees an opportunity to participate in decision-making** in matters affecting them, to make the job contents interesting and challenging. ✓ The **national objectives** are: **to remove inequality of opportunities and provide fair opportunity to all to work and to progress**, to **produce according to national priorities**, to help the country become self-reliant and avoid dependence on other nations, to train young men as apprentices and thus contribute in skill formation for economic growth and development.	
36.	Returns to scale may be: a) Constant b) Increasing c) Decreasing d) All of the above	**1**
Ans.	**d) All of the above.** **Because: Constant returns** to scale occur when the inputs increase by some proportion and the output also increases by the same proportion. It is also called linear homogeneous production function. **Increasing returns** to scale occur when the inputs increase by some proportion and the output increases more than proportionately. **Decreasing returns** to scale occur when the inputs increase by some proportion and the output increases less than proportionately.	
37.	The 4P's in the theory of production and cost are: a) Product, promotion, profit, place b) Promotion, price, profit, place c) Product, profit, place, promotion d) Product, promotion, price, place	**1**
Ans.	**d) Product, promotion, price, place.** **Because:** The enterprise has to make **decision regarding 4 P's namely**: **Product**: variety, quality, design, features, brand name, packaging, associated services, utility etc. **Promotion**: Methods of communicating with consumers through personal selling, social contacts, advertising, publicity etc. **Price:** Policies regarding pricing, discounts, allowance, credit terms, concessions, etc. **Place:** Policy regarding coverage, outlets for sales, channels of distribution, location and layout of stores, inventory, logistics etc.	**1**
38.	Paul H. Douglas and C.W. Cobb of the U.S.A. studied the production function of the: a) African manufacturing industry b) American manufacturing industry c) Indian manufacturing industry d) All of the above	**1**

Ans.	**b) American manufacturing industry.** **Because:** Paul H. Douglas and C.W. Cobb of the U.S.A. studied the production function of the **American manufacturing industries**. In its original form, this production function applies not to an individual firm but to the whole of manufacturing in the United States. In this case, output is manufacturing production and inputs used are labour and capital. **Other options are irrelevant**.	
39.	Cobb-Douglas production function is stated as: a) $Q = KL_a C (a-1)$ b) $Q = KL (1-a)$ c) $Q = KL_a C (1-a)$ d) $Q = K_aL C (1-a)$	**1**
Ans.	**c) $Q = KL_a C (1-a)$.** **Because:** Cobb-Douglas production function is stated as: **$Q = KL^a C (1-a)$** where 'Q' is output, 'L' the quantity of labour and 'C' the quantity of capital. 'K' and 'a' are positive constants. The conclusion drawn from this famous statistical study is that **labour contributed about 3/4th and capital about 1/4th** of the increase in the manufacturing production.	
40.	The law of variable proportion is also said to be as: a) The law of returns to a variable input b) The law of diminishing returns c) Both (a) and (b) d) Neither (a) nor (b)	**1**
Ans.	**c) Both (a) and (b).** **Because:** The law of variable proportions (as the behaviour of output is studied by changing the proportion in which inputs are combined) the **law of returns to a variable input** as any change in output is taken as resulting from the additional variable input or **the law of diminishing returns** as returns eventually diminish.	
41.	Which of the following statement is not true? a) Both average and marginal product are derived from the total product. b) Average product is obtained by dividing the total product by the number of units of the variable factor c) When average product rises as a result of an increase in the quantity of variable input, marginal product is less than the average product. d) Marginal product is the change in total product resulting from a unit increase in the quantity of a variable factor.	**1**
Ans.	**c)** When average product rises as a result of an increase in the quantity of variable input, marginal product is less than the average product. **Because:** When **average product rises** as a result of an increase in the quantity of variable input, **marginal product is more than the average product.**	
42.	Planning horizon is a period of time in which: a) All factors of production are variable b) All factors of production are constant c) At least one factor of production is constant d) There will be no change in factors of production	**1**
Ans.	**a) All factors of production are variable.** **Because:** The **long run** is a period of time (or planning horizon) in which all **factors of production are variable**. It is a time period when the firm will be able to install new machines and capital equipments apart from increasing the variable factors of production. A long-run production function shows the maximum quantity of a good or service that can be produced by a set of inputs, assuming that the firm is free to vary the amount of all the inputs being used.	

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43.	If the inputs of all but one factor are held constant, the total product will vary with: a) The quantity used of the variable factor b) The quantity used of the fixed factor c) Both (a) and (b) d) Neither (a) nor (b)	**1**
Ans.	**a) The quantity used of the variable factor.** **Because:** Total product is the total output resulting from the efforts of all the factors of production combined together at any time. **If the inputs of all but one factor are held constant,** the **total product will vary with the quantity used of the variable factor.** The quantity of variable factor (labour) used along with the factors whose quantity is held constant (capital) represent the total product at various levels of use of the variable input.	
44.	Marginal product =? a) $MP_n = TP_n + TP_{n-1}$ b) $MP_n = TP_n - TP_{n-1}$ c) $MP_n = TP_n \times TP_{n-1}$ d) $MPn = TP_n / TP_{n-1}$	**1**
Ans.	**a) $MP_n = TP_n - TP_{n-1}$.** **Because:** Marginal product is the **change in total product per unit change in the quantity of variable factor.** In other words, it is the **addition made to the total production by an additional unit of input**. Symbolically, **$MP_n = TP_n - TP_{n-1}$**.	
45.	The behaviour of production when all factors are varied is the subject matter of: a) The law of return to scale b) The law of variable proportion c) The law of diminishing returns d) The law of returns to a variable input	**1**
Ans.	**a) The law of return to scale.** **Because**: A long-run production function shows the maximum quantity of a good or service that can be produced by a set of inputs, assuming that the firm is free to vary the amount of all the inputs being used. **The behaviour of production when all factors are varied is the subject matter of the law of returns to scale.** **Why other options are wrong?** In the **short-run**, the production function is studied by holding the quantities of capital fixed, while varying the amount of other factors (labour, raw material etc.) This is done when the **law of variable proportion** (the law of **diminishing returns**, the law of returns to a **variable input** is studied.	
46.	A rational producer will never produce in: a) Stage 1 b) Stage 2 c) Stage 3 d) Both (a) and (c)	**1**
Ans.	**d) Both (a) and (c).** **Because**: A rational producer will **never produce in stage 1 and stage 3**. These stages are called stages of '**economic absurdity' or 'economic non-sense'**. A rational producer will **always produce in stage 2** where both the **marginal product and average product of the variable factors are diminishing**.	

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47.	Which of the following statement is false? a) In the first stage, the AP curve rises throughout whereas the marginal product curve first rises and then starts falling after reaching its maximum b) In stage 2, both marginal product and average product of the variable factor are increasing and positive. c) In Stage 3, total product declines, MP is negative, average product is diminishing. d) The law of increasing returns operates because in the beginning, the quantity of fixed factors is abundant relative to the quantity of the variable factor	**1**
Ans.	**b) In stage 2, both marginal product and average product of the variable factor** are increasing and positive. **Because:** In **stage 2**, **both marginal product and average product of the variable factor are diminishing but are positive**. At the end of this stage, the marginal product of the variable factor is zero. **Why other options are wrong?** ✓ In the **first stage**, the AP curve rises throughout whereas the marginal product curve first rises and then starts falling after reaching its maximum. It is to be noted that the marginal product although starts declining, remains greater than the average product throughout the stage so that average product continues to rise. ✓ In **Stage 3,** total product declines, MP is negative, average product is diminishing. ✓ The **law of increasing returns** operates because in the beginning, the quantity of fixed factors is abundant relative to the quantity of the variable factor. As more units of the variable factor are added to the constant quantity of the fixed factors, the fixed factors are more intensively and effectively utilised.	
48.	Stage 3 is also called as: a) Negative return b) Increasing return c) Diminishing return d) All of the above	**1**
Ans.	**a) Negative returns.** **Because:** In Stage 3, total product declines, MP is negative, average product is diminishing. This stage is called the **stage of negative returns** since the **marginal product of the variable factor is negative** during this stage. **Why other options are wrong?** ✓ **Stage 2**, is known as the **stage of diminishing returns** because both the average and marginal products of the variable factors continuously fall during this stage. ✓ **Stage 1,** is known as the **stage of increasing return** because the AP curve rises throughout whereas the marginal product curve first rises and then starts falling after reaching its maximum.	
49.	When average product is maximum: a) Marginal product is equal to average product b) Marginal product is greater than average product c) Marginal product is less than average product d) None of the above	**1**
Ans.	**a) Marginal product is equal to average product.** **Because:** When average product rises as a result of an increase in the quantity of variable input, marginal product is more than the average product. When average product is maximum, marginal product is equal to average product. In other words, the marginal product curve cuts the average product curve at its maximum. When average product falls, marginal product is less than the average product.	

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50.	Constant returns to scale is also called as: a) Linear homogeneous production function b) Heterogeneous function c) Both (a) and (b) d) Neither(a) nor (b)	**1**
Ans.	**a) Linear homogeneous production function**. **Because:** Constant returns to scale occur when the inputs increase by some proportion and the output also increases by the same proportion. It is also called **linear homogeneous production function**.	
51.	Iso cost line is also known as: a) Equal cost line b) Budget line c) Budget constraint line d) All of the above	**1**
Ans.	**d) All of the above.** **Because: Iso cost or Equal-cost Lines also known as budget line or the budget constraint line**, shows the various alternative combinations of two factors which the firm can buy with given outlay. Suppose a firm has ₹ 1,000 to spend on the two factors X and Y. If the price of factor X is ₹ 10 and that of Y is ₹ 20, the firm can spend its outlay on X and Y in various ways. It can spend the entire amount on X and thus buy 100 units of X and zero units of Y or it can spend the entire outlay on Y and buy 50 units of it with zero units of X factor. In between, it can have any combination of X and Y.	
52.	Which of the following statement is not true? a) Isoquants are negatively sloped b) Isoquants are convex to origin c) Isoquants are also called as PP curve d) Isoquants are non-intersecting	**1**
Ans.	**c) Isoquants are also called as PP curve.** **Because:** Isoquants are negatively sloped, convex to the origin due to diminishing marginal rate of technical substitution (MRTS) and are non-intersecting. **Iso cost line, also known as budget line** or the budget constraint line.	
53.	Which of the following statement is false in case of law of variable proportion? a) The state of technology is assumed to be given and unchanged b) There must be some inputs whose quantity is kept fixed c) The law apply to those cases where the factors must be used in fixed proportions to yield output d) We consider only physical inputs and outputs and not economic profitability in monetary terms.	**1**
Ans.	**c) The law apply to those cases where the factors must be used in fixed proportions to yield output.** **Because:** The law **does not apply to those cases where the factors must be used in fixed proportions to yield output.** When the various factors are required to be used in fixed proportions, an increase in one factor would not lead to any increase in output i.e., marginal product of the variable factor will then be zero and not diminishing.	
54.	The point at which TP is maximum and MP is zero is called as: a) Zero point b) Point of saturation c) Point of inflexion d) None of the above.	**1**
Ans.	**b) Point of saturation.** **Because:** The point at which **TP is maximum and MP is zero** is called as **point of saturation.**	

	Why other options are wrong? ✓ **Point of Inflexion** is that point on TP at which **MP is maximum.** ✓ **Other options are irrelevant.**	
55.	_____is that point on TP at which MP is maximum: a) Point of inflexion b) Point of saturation c) Zero point d) None of the above	**1**
Ans.	**a) Point of inflexion.** **Because:** Point of inflexion is that point on TP at which **MP is maximum.** **Why other options are wrong?** ✓ **Point of saturation** is the point at which **TP is maximum and MP is zero.** ✓ **Other options are irrelevant.**	
56.	The quantity of the variable factor becomes too excessive relative to the fixed factor so that they get in each other's ways with the result that the total output falls instead of rising is the case of: a) Increasing return b) Decreasing return c) Negative return d) Positive return	**1**
Ans.	**c) Negative return.** **Because:** In case of **negative returns**, the quantity of the variable factor becomes too excessive relative to the fixed factor so that they get in each other's ways with the result that the **total output falls instead of rising**. In such a situation, a reduction in the units of the variable factor will increase the total output.	
57.	Returns to scale may be: a) Constant b) Increasing c) Decreasing d) All of the above	**1**
Ans.	**d) All of the above.** **Because:** If we increase all factors i.e., scale in a given proportion and output increases in the same proportion, **returns to scale are said to be constant**. **Why other options are wrong?** ✓ If the increase in all factors leads to more than proportionate increase in output, returns to scale are said to be **increasing.** ✓ If the increase in all factors leads to less than proportionate increase in output, returns to scale are **decreasing.**	
58.	Increasing marginal returns refers to the: a) Short run b) Long run c) Both (a) and (b) d) None	**1**
Ans.	**c) Both (a) and (b).** **Because:** Increasing marginal returns refers to the **short run** in which at least one input is fixed. The existence of fixed inputs in the short run gives rise to increasing and later to diminishing marginal returns	
59.	Decreasing returns to scale eventually occur because of: a) Increasing difficulties of management b) Coordination c) Control d) All of the above	**1**

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Ans.	**d) All of the above.** **Because:** Decreasing returns to scale eventually occur because of increasing difficulties of management, coordination and control. When the firm has expanded to a very large size, it is difficult to manage it with the same efficiency as earlier. **Hence, all of the above are correct.**	
60.	Cobb and Douglas assumed that: a) Returns to scale are constant b) Returns to scale are diminishing c) Returns to scale are increasing d) Returns to scale are negative	**1**
Ans.	**a) Returns to scale are constant.** **Because:** Cobb and Douglas assumed that **returns to scale are constant.** The function was constructed in such a way that the exponents summed to a**+1-a=1.**	
61.	In Cob Douglas equation, if a + b > 1, where a and b are constant, refers to: a) Increasing returns to scale b) Constant returns to scale c) Decreasing returns to scale d) None of the above	**1**
Ans.	**a) Increasing returns to scale.** **Because**: In Cob Douglas equation, **if a + b > 1**, where a and b are constant, refers to: **increasing returns to scale** i.e. increase in output is more than the proportionate increase in the use of factors (labour and capital). **Why other options are wrong?** ✓ If, **a + b = 1**, **constant returns to scale** result i.e. the output increases in the same proportion in which factors are increased. ✓ If, **a + b < 1**, **decreasing returns to scale** result i.e. the output increases less than the proportionate increase in the labour and capital.	
62.	By combining Isoquants and Iso-cost lines, a producer can find out the combination of factors of production which is optimum: a) True b) False c) May or may not d) None of the above	**1**
Ans.	**a) True.** **Because:** By combining **Isoquants and Iso-cost** lines, a producer can find out the **combination of factors of production which is optimum** i.e. the combination of factors of production which would minimise his cost of production.	
63.	Which of the following statement is not true? a) Accounting costs are also called implicit costs b) Economic costs include both accounting costs and implicit costs. c) Accounting costs relate to those costs which involve cash payments by the entrepreneur of the firm. d) Economic costs include: (1) the normal return on money capital invested by the entrepreneur himself in his own business: (2) the wages or salary not paid to the entrepreneur,	**1**
Ans.	**a) Accounting costs are also called implicit costs.** **Because:** Accounting costs **relate to those costs which involve cash payments by the entrepreneur of the firm**. Thus, **accounting costs are explicit costs** and includes all the payments and charges made by the entrepreneur to the suppliers of various productive factors.	

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	Why other options are wrong? ✓ Economic costs include: the **normal return on money capital invested** by the entrepreneur himself in his own business, **the wages or salary not paid to the entrepreneur**, but could have been earned if the services had been sold somewhere else. Thus**, economic costs include both accounting costs and implicit costs.**	
64.	Private cost refers to: a) Costs actually incurred or provided for by firms and are either explicit or implicit b) The total cost borne by the society on account of a business activity and includes private cost and external cost c) The cost incurred in the past on the acquisition of a productive asset such as machinery, building etc. d) The money expenditure that has to be incurred for replacing an old asset	**1**
Ans.	**a) Costs actually incurred or provided for by firms and are either explicit or implicit.** **Because:** Private costs are costs actually **incurred or provided for by firms and are either explicit or implicit**. They normally figure in business decisions as they form part of total cost and are internalised by the firm.	
65.	_____ cost includes the cost of resources for which the firm is not required to pay price such as atmosphere, rivers, roadways etc.: a) Private cost b) Social cost c) Incremental cost d) Sunk cost	**1**
Ans.	**b) Social cost.** **Because:** Social cost, refers to the **total cost borne by the society on account of a business activity and includes private cost and external cost**. It includes the cost of resources for which the firm is not required to pay price such as atmosphere, rivers, roadways etc. and the cost in terms of dis-utility created such as air, water and environment pollution. **Why other options are wrong?** ✓ **Private costs** are costs actually incurred or provided for by firms and are either explicit or implicit. ✓ **Incremental costs** are related to the concept of marginal cost. Incremental cost refers to the additional cost incurred by a firm as result of a business decision. ✓ **Sunk costs** refer to those costs which are already incurred once and for all and cannot be recovered. They are based on past commitments and cannot be revised or reversed if the firm wishes to do so.	
66.	Which of the following is an example of sunk cost? a) Expenses incurred on advertising b) Buy a new production facility or acquire a new set of clients c) Replace worn out machinery d) All of the above	**1**
Ans.	**a) Expenses incurred on advertising.** **Because**: **Sunk costs** refer to those costs which are **already incurred once and for all and cannot be recovered.** They are based on past commitments and cannot be revised or reversed if the firm wishes to do so. **Examples** of sunk costs are expenses incurred on **advertising, R&D, specialised equipments and fixed facilities such as railway lines**. Sunk costs act as an important barrier to entry of firms into business.	

	Why other options are wrong? ✓ **Incremental costs** are related to the concept of marginal cost. Incremental cost refers to the additional cost incurred by a firm as result of a business decision. For **example**, incremental costs will have to be incurred by a firm when it makes a decision to change its product line, **replace worn out machinery, buy a new production facility or acquire a new set of clients**.	
67.	Which of the following statement regarding fixed costs is not true? a) Fixed cost vary with output up to a certain level of activity b) These costs require a fixed expenditure of funds irrespective of the level of output c) E.g., of fixed cost are rent, property taxes, interest on loans d) Fixed costs cannot be avoided	**1**
Ans.	**a) Fixed cost vary with output up to a certain level of activity**. **Because:** Fixed or constant costs are not a function of output: **they do not vary with output up to a certain level of activity**. These costs **require a fixed expenditure of funds** irrespective of the level of output, **e.g., rent, property taxes.** Fixed costs **cannot be avoided**. These costs are fixed so long as operations are going on. They can be avoided only when the operations are completely closed down.	
68.	In a cost function, the dependent variable is _____ and the independent variable is _____: a) Unit cost: price of a factor b) Price of a factor: unit cost c) Price of a factor: total cost d) The size of the output: total cost	**1**
Ans.	**a) Unit cost: price of a factor.** **Because:** In a cost function, the **dependent variable is unit cost or total cost** and the **independent variables are the price of a factor, the size of the output or any other relevant phenomenon** which has a bearing on cost, such as technology, level of capacity utilization, efficiency and time period under consideration.	
69.	Such factors which can be easily varied with a change in the level of output are called: a) Total factors b) Fixed factors c) Variable factors d) None of the above	**1**
Ans.	**c) Variable factors.** **Because:** Such factors which can be easily varied with a change in the level of output are called **variable factors**. **Why other options are wrong?** ✓ There are some factors such as building, capital equipment, which cannot be so easily varied. Such factors which cannot be readily varied and require a longer period to adjust are called **fixed factors**. ✓ **Total factor** is the combination of fixed and variable factors.	
70.	Costs incurred towards the salary of foremen will have a sudden jump if another foreman is appointed when the output crosses a particular limit is an example of : a) Semi variable cost b) Stair step variable cost c) Completely variable cost d) Completely fixed cost	**1**

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Ans.	**b) Stair step variable cost.** **Because:** Costs incurred towards the salary of foremen will have a sudden jump if another foreman is appointed when the output crosses a particular limit is an **example of stair step variable cost.** **Why other options are wrong?** ✓ Electricity charges include both a fixed charge and a charge based on consumption is an example of **semi variable cost.** ✓ Wages of casual labour employed, prices of raw material are examples of **completely variable cost.** ✓ Managers' salary is an example of **completely fixed cost**.	
71.	___________costs which are neither perfectly variable, nor absolutely fixed in relation to the changes in the size of output: a) Completely fixed cost b) Completely variable cost c) Semi variable cost d) Stair step variable cost	**1**
Ans.	**c) Semi variable cost.** **Because:** Costs which are neither perfectly variable, nor absolutely fixed in relation to the changes in the size of output are known as **semi-variable costs.** **Example:** Electricity charges include both a fixed charge and a charge based on consumption. **Why other options are wrong?** ✓ **Fixed costs** are those costs which are independent of output, i.e., they do not change with changes in output. It includes charges as contractual rent, insurance fee, maintenance cost, property taxes, interest on capital employed, managers' salary, watchman's wages etc. ✓ **Variable costs** are those costs which change with changes in output. These costs include payments such as wages of casual labour employed, prices of raw material, fuel and power used, transportation cost etc. ✓ There are some costs which may increase in a **stair-step fashion**, i.e., they remain fixed over certain range of output: but suddenly jump to a new higher level when output goes beyond a given limit. E.g. Costs incurred towards salary of foremen will have a sudden jump if another foreman is appointed when the output crosses a particular limit.	
72.	The vertical difference between TC and TFC is: a) TFC b) MC c) AVC d) AFC	**1**
Ans.	**a) TFC.** **Because:** TFC = TC – TVC. Total Fixed Cost is the vertical difference between TC and TFC.	
73.	The total fixed cost curve (TFC) : a) A horizontal straight line parallel to X-axis b) A vertical line parallel to Y axis c) Negatively slope d) Starts from origin	**1**
Ans.	**a) A horizontal straight line parallel to X-axis.** **Because**: The total fixed cost curve (TFC) is a **horizontal straight line parallel to X-axis** as **TFC remains fixed** for the whole range of output. This curve starts from a point on the Y-axis meaning thereby that fixed costs will be incurred even if the output is zero. Other options are irrelevant.	

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74.	AFC = ? a) TVC/Q b) TFC/Q c) MC/Q d) TC/Q	**1**
Ans.	**b) TFC/Q.** **Because**: AFC is obtained by **dividing the total fixed cost by the number of units of output produced**. i.e **AFC = TFC/Q** where Q is the number of units produced. Thus, average fixed cost is the fixed cost per unit of output.	
75.	AFC cannot : a) Be zero b) Fall c) Rise d) All of the above	**1**
Ans.	**a) Be zero.** **Because:** Total fixed cost is a **constant amount**, average fixed cost will steadily fall as output increases. Therefore, if we draw an average fixed cost curve, it will **slope downwards** throughout its length but will not touch the X-axis as **AFC cannot be zero**.	
76.	Average variable cost will rise steeply because of the operation of: a) Diminishing return b) Increasing return c) Constant return d) Negative return	**1**
Ans.	**a) Diminishing return.** **Because:** Average variable cost is the **variable cost per unit of output**. Average variable cost normally falls as output increases from zero to normal capacity output due to occurrence of increasing returns to variable factors. But beyond the normal capacity output, **average variable cost will rise steeply because of the operation of diminishing returns.**	
77.	Which of the following equation is correct? a) ATC = AFC + AVC b) ATC = TC/Q c) Both (a) and (b) d) None of the above	**1**
Ans.	**c) Both (a) and (b).** **Because:** Average total cost (ATC) is **the sum of average variable cost and average fixed cost**. i.e., **ATC = AFC + AVC**. It is the **total cost divided by the number of units produced**, i.e. **ATC = TC/Q**. The behaviour of average total cost curve depends upon the behaviour of the average variable cost curve and the average fixed cost curve.	
78.	The average total cost curve is: a) "U" shaped curve b) Inverse S shaped curve c) Negatively sloped curve d) Parallel to X axis	**1**
Ans.	**a) "U" shaped curve.** **Because**: When AVC curve begins to rise, but AFC curve still falls steeply, ATC curve continues to fall. This is because, during this stage, the fall in AFC curve is greater than the rise in the AVC curve, but as output increases further, there is a sharp rise in AVC which more than offsets the fall in AFC. Therefore, ATC curve first falls, reaches its minimum and then rises. Thus, the a**verage total cost curve is a "U" shaped curve**.	

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79.	If we are producing 5 units at a cost of ₹ 200 and 10 units are produced at a total cost of ₹ 320, the MC will be: a) ₹28 b) ₹23 c) ₹24 d) ₹30	**1**
Ans.	**c) 24** **Because**: **MC = Change in TC/Change in Q** = 320 – 200/10 – 5 **=₹ 24**	
80.	Which of the following statement is true? a) When average cost falls as a result of an increase in output, marginal cost is more than average cost b) When average cost rises as a result of an increase in output, marginal cost is less than average cost c) When average cost is minimum, marginal cost is more than the average cost d) Marginal cost curve cuts average cost curve at its minimum point (i.e. optimum point)	**1**
Ans.	**d) Marginal cost curve cuts average cost curve at its minimum point (i.e. optimum point).** **Because:** Marginal cost curve cuts average cost curve at its minimum point (i.e. optimum point. **Why other options are wrong?** ✓ When average cost falls as a result of increase in output**, marginal cost is less than average cost.** ✓ When average cost rises as result of increase in output, **marginal cost is more than average cost.** ✓ When average cost is minimum, **marginal cost is equal to average cost.**	
81.	The long run average cost curve is often called as: a) Planning curve b) Non planning curve c) Inverse S shaped curve d) L shaped curve	**1**
Ans.	**a) Planning curve.** **Because**: The **long run average cost curve is often called as 'planning curve'** because a **firm plans to produce any output in the long run by choosing a plant on the long run average cost curve** corresponding to the given output. The long run average cost curve helps the firm in the choice of the size of the plant for producing a specific output at the least possible cost.	
82.	External economies and diseconomies are those economies and diseconomies which accrue: a) To firms as a result of expansion in the output b) To firms as a result of contraction in the output c) To firms as a result of no change in the output d) All of the above	**1**
Ans.	**a) To firms as a result of expansion in the output.** **Because:** External economies and diseconomies are those economies and diseconomies which accrue **to firms as a result of expansion in the output of the whole industry and they are not dependent on the output level of individual firms**. They are external in the sense that they accrue to firms not out of their internal situation but from outside i.e. due to expansion of industry.	

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83.	Sales that can be split into separate sections such as for advertising, exports and customer service is an example of: a) Technical economies b) Managerial economies c) Commercial economies d) Financial economies	**1**
Ans.	**b) Managerial economies.** **Because:** Managerial economies **refer to reduction in managerial costs**. When output increases, specialisation and division of labour can be applied to management. It becomes possible to divide its management into specialised departments under specialised personnel, such as production manager, sales manager, finance manager etc. If scale of production increases further, each department can be further sub-divided: for **e.g. sales can be split into separate sections such as for advertising, exports and customer service**.	
84.	Which curve has the shape of rectangular hyperbola? a) Average fixed cost b) Marginal cost c) Total fixed cost d) None of the above	**1**
Ans.	**a) Average fixed cost.** **Because:** The shape of **AFC is rectangular hyperbola** in which at every point **TFC remains the same**.	
85.	Which among the following will you consider as fixed cost? a) Wages paid to workers b) Cost of electricity for running the machine c) Depreciation of machine d) Cost of cloth	**1**
Ans.	**c) Depreciation of machine.** **Because:** The depreciation charged on machinery **remains the same for years** until and unless addition to machinery is made whereas variable cost is directly related with the level of production.	
86.	Marginal cost changes because of change in _____: a) Total cost b) Total variable cost c) Total fixed cost d) Average cost	**1**
Ans.	**b) Total variable cost.** **Because:** In the short run, **MC = Change in TVC/Change in Q. Hence, Marginal cost changes because of change in Total variable cost.**	
87.	The cost curve which is never U shaped is: a) AC curve b) AVC curve c) MC curve d) AFC curve	**1**
Ans.	**d) AFC curve.** **Because:** AFC curve is **never U shaped** because with i**ncrease in production AFC always falls**. The AFC curve slopes downwards from left to right throughout its length and is a **Rectangular Hyperbola.**	
88.	Commercial economies is related with: a) Production of large volumes of goods requires large amount of materials and components b) A large firm has advantages over small firms in matters related to procurement of finance for its business activities c) Large business with diverse and multi- production capability is in a better position to withstand economic ups and downs	**1**

	d) Large-scale production is associated with economies of superior techniques.	
Ans.	**a) Production of large volumes of goods requires large amount of materials and components**. **Because:** Commercial economies are related to **production of large volumes of goods requiring large amount of materials and components**. A large firm is able to place bulk orders for materials and components and enjoy lower prices for them. **Why other options are wrong?** ✓ **Financial economies** are related to large firm has advantages over small firms in matters related to procurement of finance for its business activities. It can, for instance, offer better security to bankers and avail of advances with greater ease. ✓ **Risk bearing economies** are related to a large business with diverse and multi- production capability is in a better position to withstand economic ups and downs. ✓ **Technical economies** are related to large-scale production is associated with economies of superior techniques. As the firm increases its scale of operations, it becomes possible to use more specialised and efficient form of all factors, specially capital equipment and machinery.	
89.	Suppose the first four units of a variable input generate corresponding total outputs of 300, 450, 550, 600, the marginal product of third unit of input is: a) 150 b) 200 c) 100 d) 50	**1**
Ans.	**b) 200** **Because: MP = TPn – TPn-1** = 550 – 450 = **100 units.**	
90.	Which one of the following is not a relationship between MR and TR? a) TR is maximum when MR is zero b) MR depends on TR c) TR falls when MR is negative d) TR falls MR rises	**1**
Ans.	**d) TR falls MR rises.** **Because:** When **MR rises TR also rises. It does not fall**. All other options depict the correct relationship between MR and TR.	
91.	The money costs can be regarded as: a) Opportunity cost b) Explicit cost c) Social cost d) Implicit cost	**1**
Ans.	**b) Explicit cost.** **Because**: All money costs are **explicit cost**s and also called **accounting cost**. **Why other options are wrong?** ✓ **Opportunity cost** relates to sacrificed alternatives. They are not recorded in the books of account. ✓ **Social cost** refers to the total cost to the society due to business activity. These include both private cost and the external cost. ✓ **Implicit costs** involve sacrifice of alternatives that have been foregone in the production of a commodity. Hence, implicit costs are also called **"opportunity cost"** and forms part of the economic costs.	

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92.	The best definition of marginal firm is: a) The firm with the lowest cost b) The firm with the largest profit c) The firm with the normal profit d) The firm equates its marginal cost and marginal revenue	**1**
Ans.	**c) The firm with the normal profit.** **Because**: Marginal firm makes **only normal profit in which AR = AC. All other options are irrelevant.**	
93.	Long run average cost curves coincides each short run average cost curve at _____: a) Lower point b) Upper point c) At middle point d) No permanent position	**1**
Ans.	**d) No permanent position.** **Because:** Each **short run average cost curve coincides with long run average cost curve** which have **no permanent position** because right side LAC coincides with right side SAC and vice versa.	
94.	The economies and diseconomies of large scale production is determined by: a) The long run total cost curve b) The long run marginal cost curve c) The normal long run average cost curve d) None of the above	**1**
Ans.	**c) The normal long run average cost curve.** **Because:** The normal LAC curve is **influenced by the economies and diseconomies** of large-scale production because law of return to scale apply here.	
95.	Economies of scale means: a) Reduction in unit cost of distribution b) Reduction in unit cost of production c) Addition to the unit cost of production d) All of the above	**1**
Ans.	**b) Reduction in unit cost of production.** **Because:** Economies of scale means reduction in unit cost of production in the long run average cost curve.	
96.	Rising portion of marginal cost curve is due to: a) Decreasing return to varying factor b) Constant return to varying factor c) Increasing return to varying factor d) None of the above	**1**
Ans.	**a) Decreasing return to varying factor.** **Because**: As per production and cost function **MC increases due to decreasing law of returns**.	
97.	AVC curve a) Slopes upward, then remains constant b) Slopes downwards first and then upwards c) Slopes down ward d) Slopes upward	**1**
Ans.	**b) Slopes downwards first and then upwards.** **Because:** As per law of variable proportion, **AVC is U shape**, so **AVC slopes downward first and then upwards**'.	
98.	Suppose, in the short run a firm produces zero output, then: a) TVC will be zero b) TC will be zero c) TFC will be zero d) None of the above	**1**

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Ans.	**a) TVC will be zero.** **Because:** Only TVC will be zero whenever a **produces zero output.** **TFC will remain fixed** whether output is maximum or zero.	
99.	Which of the following statement regarding MC curve is true: a) MC curve will always less than AC curve b) MC curve will be always more than AC curve c) MC curve will be equal to AC curve at its minimum point d) MC curve will never equal to AC curve	**1**
Ans.	**c) MC curve will be equal to AC curve at its minimum point.** **Because:** Relationship between MC and AC curve **shows MC is equal to the AC at its minimum point.**	
100.	An increase in the plant capacity of a firm, is known as: a) A long run adjustment b) A short run adjustment c) A temporary adjustment d) None of the above	**1**
Ans.	**a) A long run adjustment.** **Because**: Since plant and machinery is a fixed factor and change in fixed factor is only possible in the long run. Hence, an increase in the plant capacity of a firm, is known as a **long run adjustment**.	
101.	Which period is also called as market period? a) Very short period b) Short period c) Very long period d) Long period	**1**
Ans.	**a) Very short period** **Because**: Very short period is also known as **market period.** **Very long period** is also known as **secular period**.	
102.	What does increasing return implies? a) Diminishing cost per unit of output b) Constant average cost c) Both (a) and (b) d) None of the above	**1**
Ans.	**a) Diminishing cost per unit of output** **Because:** Increasing return implies diminishing cost per unit of output. Constant return leads to constant return. Decreasing return implies increasing cost.	
Q.	Mr. X quit his job from a private firm where he earned ₹ 3,90,000 a year. He withdrew ₹ 5,00,000 from saving account that earned 20% annual interest to buy a second-hand bus that may carry passenger from Malka Ganj to Noida. The total number of passengers are 1000 who will pay ₹ 5,000 a year for commuter services ₹ 3,800 from each passenger goes for petrol, maintenance etc.	
103.	What is Mr X total revenue from commuter service? **a)** ₹ 4,00,000 **b)** ₹ 50,00,000 **c)** ₹ 6,00,000 **d)** ₹ 7,00,000	**1**
Ans.	**b) ₹ 50,00,000** **Because**: **Total revenue** = 1000 passengers × ₹ 5,000 = **₹ 50,00,000**	
104.	Calculate Mr X's accounting cost **a)** ₹ 2,80,000 **b)** ₹ 4,80,000 **c)** ₹ 38,00,000 **d)** ₹ 5,80,000	**1**

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Ans.	**c) ₹ 38,00,000** **Because: Accounting Cost** = Payment made by Mr X = ₹ 3,800 × 1000 = **₹ 38,00,000**	
105.	Calculate Mr X's economic cost? **a)** ₹ 31,40,000 **b)** ₹ 42,40,000 **c)** ₹ 43,40,000 **d)** ₹ 45,40,000	**1**
Ans.	**b) ₹ 42,40,000** **Because: Economic Cost = Explicit cost i.e. accounting cost + Implicit Cost** i.e. Non accounting Cost = (accounting cost) + ₹ 3,90,000 (implicit cost) + ₹ 50,000 (10% on amount withdraws i.e. implicit cost = **₹ 42,40,000**.	
106.	What can we say about Mr X? **a)** Earned economic as well as accounting profits **b)** Earned economic profit but suffered accounting Loss **c)** Suffered both economic loss and accounting Loss **d)** Earned on profit and no loss.	**1**
Ans.	**a) Earned economic as well as accounting profit.** **Because:** Mr X earned economic profit as well as accounting profit because accounting cost and economic cost are less than total revenue.	
107.	Calculate Mr X's accounting profit. **a)** ₹ 14,00,000 **b)** ₹ 15,00,000 **c)** ₹ 12,00,000 **d)** ₹ 17,00,000	**1**
Ans.	**c) ₹ 12,00,000** **Because: Accounting Profit = Total revenue – Accounting cost** = ₹ 50,00,000 – ₹ 38,00,000 **= ₹ 12,00,000**	
108.	Calculate Mr X's economic profit **a)** ₹ 7,60,000 **b)** ₹ 8,60,000 **c)** ₹ 9,60,000 **d)** ₹ 1,20,000	**1**
Ans.	**a) ₹ 7,60,000** **Because: Economic Profit = Total Revenue – Economic Cost** = ₹ 50,00,000 – ₹ 42,40,000 **= ₹ 7,60,000**	
109.	Suppose a firm produces 20 units of output and incurs ₹ 60 per unit variable cost and ₹ 10 in per unit fixed cost. In this case total cost. **a)** ₹ 1,200 **b)** ₹ 1,300 **c)** ₹ 1,400 **d)** ₹ 1,500	**1**
Ans.	**c) ₹ 1,400** **Because: TC = TVC + TFC** = ₹ 1,200 + ₹ 200 = **₹ 1,400** (TVC = AVC × Q = 60 × 20 = ₹ 1,200 TFC = AFC × Q = 10 × 20 = ₹ 2,00)	
110.	As a result of 50% increase in all inputs, the output increases by 35%. This is a case of: **a)** Increasing returns to factor **b)** Decreasing returns to factor **c)** Increasing returns to scale **d)** Decreasing returns to scale	**1**

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Ans. **d) Decreasing return to scale.**
Because: If output increases less than increase in all inputs, this is the case of **decreasing return to scale.**
If output increase more than increase in all inputs, this is the case of **increasing return to scale**.

Q. Use the following table to answer questions 109-112

Output	Total Cost (TC)	TFC	AFC	MC
0	250	250	-	-
1	340	250	250	90
2	420	250	125	80
3	490	250	83.33	70
4	550	250	62.50	60
5	620	250	50	70
6	700	250	41.66	80
7	780	250	35.71	80

111. The average fixed cost of 2 units of output is: **1**
a) ₹ 120
b) ₹ 125
c) ₹ 250
d) ₹ 83.33

Ans. **b) ₹ 125**
Because: **AFC** $= \frac{\mathbf{TFC}}{\mathbf{Q}}$
$= \frac{₹\ 250}{2} =$ **₹ 125**

112. The marginal cost of the sixth unit of output is: **1**
a) ₹ 70
b) ₹ 60
c) ₹ 80
d) ₹ 90

Ans. **c) ₹ 80**
Because: **MC = $TC_n - TC_{n-1}$**
= $TC_6 - TC_5$ = ₹ 700 − ₹ 620 = **₹ 80**

113. The total variable cost of 3 units of output is. **1**
a) ₹ 240
b) ₹ 250
c) ₹ 260
d) **₹ 230**

Ans. **a) ₹ 240**
Because: **TVC = TC – TFC**
= ₹ 490 – ₹ 250
= ₹ 240

114. The average variable cost of 5 units of output is: **1**
a) ₹ 70
b) ₹ 71
c) ₹ 74
d) ₹ 73

Ans. **c) ₹ 74**
Because: **AVC = AC – AFC**
= ₹ 124 – ₹ 50
= ₹ 74
AC (at 5th unit) $= \frac{TC}{Q} = \frac{₹\ 620}{5} =$ ₹124]

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Q. Use table to answer Q 115 to Q 116.

Hour of Labour	Total Output	Marginal Product
0	0	0
1	300	300
2	-	260
3	580	-

115. What is the total output when 2 units of labour are employed? **1**

a) ₹ 360
b) ₹ 560
c) ₹ 460
d) ₹ 260

Ans. **b) ₹ 560**

Because: Total output when 2 units of labour are employed **= ₹ 300+ ₹ 260**
=₹ 560

116. What is the marginal product of third hour labour? **1**

a) ₹ 320
b) ₹ 330
c) ₹ 220
d) ₹ 420

Ans. **a) ₹ 320**

Because: Marginal Product of third hour labour = **₹ 580 – ₹ 260 = ₹ 320**

117. A firm's average fixed costs in ₹ 30 at 6 units of output. What will it be 4 units of output? **1**

a) ₹ 60
b) ₹ 30
c) ₹ 45
d) ₹ 80

Ans. **c) ₹ 45**

Because: **TFC = AFC × Q**
= ₹ 30 × 6 = **₹ 180**

AFC at 4 units of Output = $\frac{\textbf{TFC}}{\textbf{Q}}$ = $\frac{\textbf{₹180}}{\textbf{4}}$ = **₹45**

118. A firm is producing 7 units of output has an average cost of ₹ 150 and has to pay ₹630 towards total fixed cost whether it produces or not. How much of average cost in made of variable cost **1**

a) ₹ 70
b) ₹ 60
c) ₹ 90
d) ₹ 40

Ans. **b) ₹ 60**

Because: (AFC = $\frac{₹630}{7}$ = ₹90)
AVC = AC – AFC
= ₹ 150 – ₹ 90 **= ₹ 60**

119. Suppose XYZ firm is earning total revenues of ₹ 1,30,000 and is increasing explicit cost of ₹ 1,00,000. If the owner could work for another company, he would earn ₹ 50,000 a year, we would conclude that. **1**

a) The firm is earning economic loss
b) Implicit cost ₹ 80,000
c) Economic profit ₹ 30,000
d) Economic cost ₹ 1,30,000

Ans. **a) The firm is earning economic loss.**

Because: Economic Cost = Explicit Cost + Implicit cost
= ₹ 1,00,000 + ₹ 60,000
= ₹ 1,60,000
Total revenue = ₹ 1,30,000

	Economic Loss = ₹ 1,30,000 – ₹ 1,60,000 **= ₹ (30,000)**	
120.	Which of the following statement in False? a) TFC = TVC + TC b) TC = TFC + TVC c) TFC = TC – TVC d) TVC = TC – TFC	**1**
Ans.	**a) TFC = TVC + TC.** **Because:** TC = TFC + TVC TFC = TC – TVC TVC = TC – TFC	
121.	Which of the following statement in true? a) ATC = AFC – AVC b) AFC = ATC + AVC c) AFC = ATC – AVC d) All of the above.	**1**
Ans.	**c) AFC = ATC – AVC.** **Because:** ATC = AFC + AVC AVC = ATC – AFC AFC = ATC – AVC	
122.	If marginal cost equals average cost: a) Average cost in rising b) Average cost in minimum c) Average cost in maximum d) Average cost in falling	**1**
Ans.	**b) Average cost is minimum.** **Because:** If MC = AC, **AC is minimum** because **MC costs AC at its minimum point**.	

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