

## Production and Costs

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Question 1.

In production function, production is a function of:

- (a) Price
- (b) Factors of Production
- (c) Total Expenditure
- (d) None of these

▼ [Answer](#)

Answer: (b) Factors of Production

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Question 2.

The basic reason of operating the Law of Diminishing Returns is:

- (a) Scarcity of Factors
- (b) Imperfect Substitution between Factors
- (c) Both (a) and (b)
- (d) None of the above

▼ [Answer](#)

Answer: (c) Both (a) and (b)

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Question 3.

Which of the following explains the short-run production function ?

- (a) Law of Demand
- (b) Law of Variable Proportion
- (c) Returns to Scale
- (d) Elasticity of Demand

▼ [Answer](#)

Answer: (b) Law of Variable Proportion

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Question 4.

Long-run production function is related to:

- (a) Law of Demand
- (b) Law of Increasing Returns
- (c) Laws of Returns to Scale
- (d) Elasticity of Demand

▼ [Answer](#)

Answer: (c) Laws of Returns to Scale

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Question 5.

In which stage of production a rational producer likes to operate in short-run production ?



- (a) First Stage
- (b) Second Stage
- (c) Third Stage
- (d) None of these

▼ [Answer](#)

Answer: (b) Second Stage

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Question 6.

Law of variable proportion explains three stages of production. In the first stage of production:

- (a) Both MP and AP rise
- (b) MP rises
- (c) AP Falls
- (d) MP is zero

▼ [Answer](#)

Answer: (a) Both MP and AP rise

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Question 7.

At which time all the factors of production may be changed ?

- (a) Short run
- (b) Long run
- (c) Very Long run
- (d) All the three

▼ [Answer](#)

Answer: (b) Long run

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Question 8.

Production function is expressed as:

- (a)  $Q_x = P_x$
- (b)  $Q_x = f(A, B, C, D)$
- (c)  $Q_x = D_x$
- (d) None of these

▼ [Answer](#)

Answer: (b)  $Q_x = f(A, B, C, D)$

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Question 9.

Which factors among following we find in short-run production process ?

- (a) Fixed Factors
- (b) Variable Factors
- (c) Both (a) and (b)
- (d) None of these

▼ [Answer](#)



Answer: (c) Both (a) and (b)

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Question 10.

The cycle which increases first and after being constant starts to reduce is called :

- (a) APP
- (b) MPP
- (c) TPP
- (d) All of these

▼ [Answer](#)

Answer: (d) All of these

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Question 11.

Which of the following is a source of production ?

- (a) Land
- (b) Labour
- (c) Capital
- (d) All of these

▼ [Answer](#)

Answer: (d) All of these

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Question 12.

Law of variable proportion is related to :

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

▼ [Answer](#)

Answer: (c) Short-run

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Question 13.

An active factor of production is:

- (a) Capital
- (b) Labour
- (c) Land
- (d) None of these

▼ [Answer](#)

Answer: (b) Labour

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Question 14.

If all the factors of production are increased by same proportion and as a result output increases by a greater proportion than it is called :

- (a) Constant returns to scale



- (b) Decreasing returns to scale
- (d) All of these
- (d) None of these

▼ [Answer](#)

Answer: (d) All of these

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Question 15.

Which of the following is included in money cost ?

- (a) Normal Profit
- (b) Explicit Cost
- (c) Implicit Cost
- (d) All of these

▼ [Answer](#)

Answer: (d) All of these

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Question 16.

Which of the following is not fixed cost ?

- (a) Insurance Premium
- (b) Interest
- (c) Cost of Raw Material
- (d) Rent of the Factory

▼ [Answer](#)

Answer: (c) Cost of Raw Material

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Question 17.

With the increase in production the difference between total cost and total fixed cost:

- (a) Remains Constant
- (b) Increases
- (c) Decreases
- (d) Both Increases or Decreases

▼ [Answer](#)

Answer: (b) Increases

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Question 18.

Changes in production quantity affect:

- (a) Both Fixed and Variable Cost
- (b) Only Variable Cost
- (c) Only Fixed Cost
- (d) None of the above

▼ [Answer](#)

Answer: (b) Only Variable Cost



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Question 19.

What happens when production is shut down ?

- (a) Fixed Cost Increases
- (b) Variable Costs Decline
- (c) Variable Costs become zero
- (d) Fixed Costs become zero

▼ [Answer](#)

Answer: (c) Variable Costs become zero

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Question 20.

The alternative name of opportunity cost is:

- (a) Economic Cost
- (b) Equilibrium Price
- (c) Marginal Cost
- (d) Average Cost

▼ [Answer](#)

Answer: (a) Economic Cost

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Question 21.

When average cost is decreasing what status marginal cost has as compared to average cost ?

- (a)  $MC > AC$
- (b)  $MC = AC$
- (c)  $MC \leq AC$
- (d)  $MC \neq AC$

▼ [Answer](#)

Answer: (c)  $MC \leq AC$

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Question 22.

Which statement of the following is true ?

- (a)  $AC = TFC - TVC$
- (b)  $AC = AFC + TVC$
- (c)  $AC = TFC + AVC$
- (d)  $AC = AFC + AVC$

▼ [Answer](#)

Answer: (d)  $AC = AFC + AVC$

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Question 23.

What is an opportunity cost ?

- (a) The alternative foregone
- (b) The opportunity lost

- (c) Transfer earnings
- (d) All of these

▼ [Answer](#)

Answer: (d) All of these

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Question 24.

The shape of average cost curve is :

- (a) U-shaped
- (b) Rectangular Hyperbola shaped
- (c) Line parallel to x-axis
- (d) None of these

▼ [Answer](#)

Answer: (a) U-shaped

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Question 25.

The average fixed cost at 5 units of output is Rs. 20. Average variable cost at 5 units of output is Rs. 40. Average cost of producing 5 units is:

- (a) Rs. 20
- (b) Rs. 40
- (c) Rs.56
- (d) Rs.60

▼ [Answer](#)

Answer: (d) Rs.60

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Question 26.

Which of the following is correct ?

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

▼ [Answer](#)

Answer: (a)  $TVC = TC - TFC$

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Question 27.

Average variable costs can be defined as:

- (a)  $TVC \times Q$
- (b)  $TVC + Q$
- (c)  $TVC - Q$
- (d)  $TVC \div Q$

▼ [Answer](#)

Answer: (d)  $TVC \div Q$

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Question 28.

With increase in output, the difference between total cost and total variable cost:

- (a) Decreases
- (b) Increases
- (c) Remains Constant
- (d) None of the above

▼ [Answer](#)

Answer: (c) Remains Constant

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Question 29.

Which factors are used in short-run production process ?

- (a) Fixed Factors
- (b) Variable Factors
- (c) Both (a) and (b)
- (d) None of the above

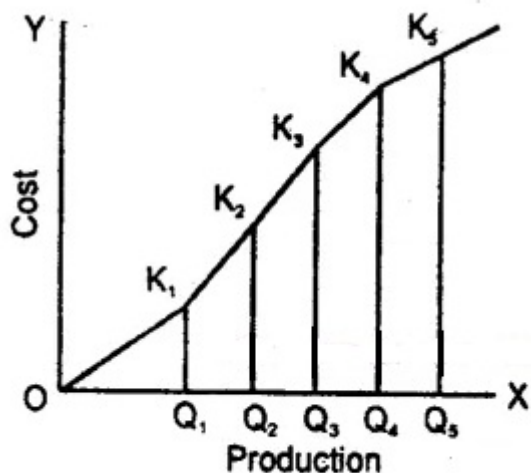
▼ [Answer](#)

Answer: (c) Both (a) and (b)

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Question 30.

Following figure shows:



- (a) Total Fixed Cost
- (b) Total Variable Cost
- (c) Total Cost
- (d) None of these

▼ [Answer](#)

Answer: (b) Total Variable Cost

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Question 31.

In which market MR may become zero or negative ?

- (a) Monopoly

- (b) Monopolistic Competition
- (c) Both (a) and (b)
- (d) Perfect Competition

▼ [Answer](#)

Answer: (c) Both (a) and (b)

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Question 32.

In which market  $AR = MR$  ?

- (a) Monopoly
- (b) Monopolistic Competition
- (c) Both (a) and (b)
- (d) Perfect Competition

▼ [Answer](#)

Answer: (d) Perfect Competition

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Question 33.

In monopoly and monopolistic competition :

- (a)  $AR = MR$
- (b)  $AR > MR$
- (c)  $AR < MR$
- (d) None of these

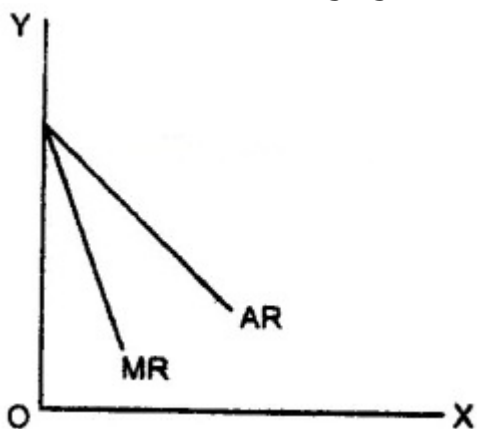
▼ [Answer](#)

Answer: (b)  $AR > MR$

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Question 34.

To which market, following figure belongs ?



- (a) Perfect Competition
- (b) Monopoly
- (c) Monopolistic Competition
- (d) None of the above

▼ [Answer](#)



Answer: (b) Monopoly

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Question 35.

With which condition, firm will get maximum profit ?

- (a) Where  $MR = MC$
- (b) Where MC cuts MR from below
- (c) Both (a) and (b)
- (d) None of the above

▼ [Answer](#)

Answer: (c) Both (a) and (b)

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Question 36.

In perfect competition, which of the following remains constant ?

- (a) AR
- (b) MR
- (c) Both AR and MR
- (d) None of the both

▼ [Answer](#)

Answer: (c) Both AR and MR

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Question 37.

In perfect competition:

- (a)  $AR = MR$
- (b)  $AR > MR$
- (c)  $MR < MC$
- (d)  $MR = MC = 0$

▼ [Answer](#)

Answer: (a)  $MR = MC$

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Question 38.

When 5 units of a goods are sold, total revenue is Rs. 100. When 6 units are sold, marginal revenue is Rs. 8. At what price are 6 units sold ?

- (a) Rs. 28 per unit
- (b) Rs. 20 per unit
- (c) Rs. 18 per unit
- (d) Rs. 12 per unit

▼ [Answer](#)

Answer: (c) Rs. 18 per unit

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Question 39.

MR is shown as:

- (a)



- (b)
- (c)
- (d) None of these

▼ [Answer](#)

Answer: (a)

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Question 40.  
AR is shown as:

- (a)
- (b)
- (c)
- (d) None of these

▼ [Answer](#)

Answer: (a)

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Question 41.  
In which market AR curve is parallel to X-axis ?

- (a) Perfect Competition
- (b) Monopoly
- (c) Monopolistic Competition
- (d) In all the above

▼ [Answer](#)

Answer: (a) Perfect Competition

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Question 42.  
Which of the following is a true statement ?

- (a) AR indicates price
- (b) AR Curve and Demand Curve are the same
- (c) Both (a) and (b)
- (d) None of the above

▼ [Answer](#)

Answer: (c) Both (a) and (b)

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Question 43.  
The basic condition of firm's equilibrium is:

- (a)  $MC = MR$
- (b)  $MR = TR$
- (c)  $MR = AR$
- (d)  $AC = AR$

▼ [Answer](#)

Answer: (a)  $MC = MR$



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Question 44.

In final equilibrium of firm:

- (a) MC cuts MR from above
- (b) MC cuts MR from below
- (c) Both (a) and (b) are
- (d) None of the above is true

▼ [Answer](#)

Answer: (b) MC cuts MR from below

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Question 45.

For every market, which condition has to be fulfilled for firm's equilibrium ?

- (a)  $AR = MC$
- (b)  $MR = MC$
- (c) MC should cut MR from below
- (d) Both (b) and (c)

▼ [Answer](#)

Answer: (d) Both (b) and (c)

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Question 46.

Which is a method of producer's equilibrium ?

- (a) TR and TC Method
- (b) MR and MC Method
- (c) Both (a) and (b)
- (d) None of the above

▼ [Answer](#)

Answer: (c) Both (a) and (b)

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Question 47.

For a firm's equilibrium:

- (a)  $MR = MC$
- (b)  $MR > MC$
- (c)  $MR < MC$
- (d)  $MR = MC = 0$

▼ [Answer](#)

Answer: (a)  $MR = MC$

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Question 48.

On which assumption, the law of supply depends ?

- (a) There should be no change in income levels of buyers and sellers in the market.
- (b) Prices of factors of production remain stable

- (c) Technological level remains constant
- (d) All the above

▼ [Answer](#)

Answer: (d) All the above

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Question 49.

If other things being same, what does the positive relationship between price and supply quantity signify ?

- (a) Law of Demand
- (b) Elasticity of Supply
- (c) Law of Supply
- (d) Supply Function

▼ [Answer](#)

Answer: (c) Law of Supply

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Question 50.

The reason of decrease in supply is:

- (a) Increase in Production Cost
- (b) Increase in Price of Substitutes
- (c) Fall in number of Firms in the Industry
- (d) All the above

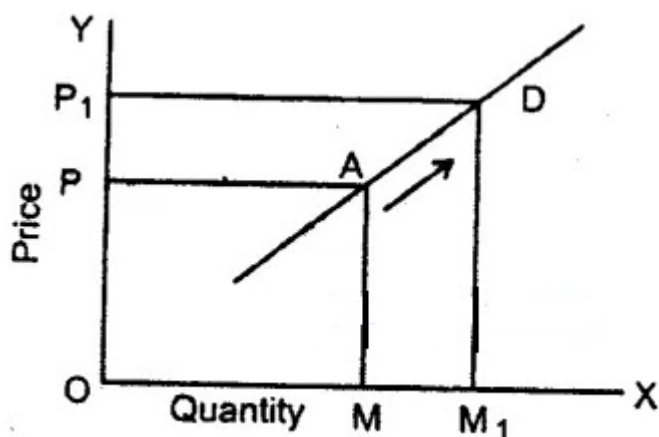
▼ [Answer](#)

Answer: (d) All the above

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Question 51.

The figure given below shows:



- (a) Extension in Supply
- (b) Contraction in Supply
- (c) Elasticity of supply
- (d) Elasticity of demand

▼ [Answer](#)

Answer: (a) Extension in Supply

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Question 52.

The quantity of a goods which the seller is ready to sell in the market at fixed price and time is called ?

- (a) Supply
- (b) Demand
- (c) Elasticity of supply
- (d) Elasticity of Demand

▼ [Answer](#)

Answer: (a) Supply

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Question 53.

Supply is associated with:

- (a) A Time Period
- (b) Price
- (c) Both (a) and (b)
- (d) None of the above

▼ [Answer](#)

Answer: (c) Both (a) and (b)

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Question 54.

Determinating factor of supply of goods is:

- (a) Price of Goods
- (b) Price of Related Goods
- (c) Price of Factor of Production
- (d) All the above

▼ [Answer](#)

Answer: (d) All the above

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Question 55.

Which of the following statement is true ?

- (a) Price and quantity have direct relationship
- (b) Supply curve rises from left to right
- (c) Supply is affected by many factors
- (d) All the above

▼ [Answer](#)

Answer: (d) All the above

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Question 56.

Which of the following function shows the laws of supply ?

- (a)  $S = f(P)$

- (b)  $S = f(a/p)$
- (c)  $S = f(Q)$
- (d) None of the above

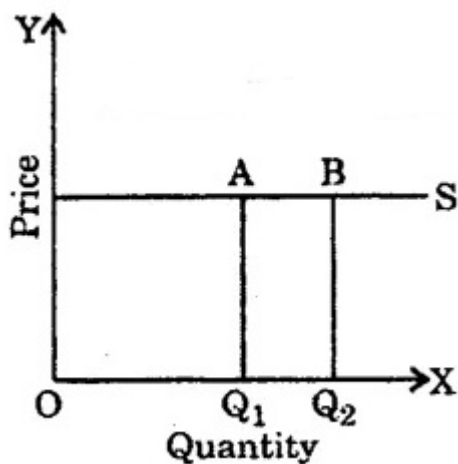
▼ [Answer](#)

Answer: (a)  $S = f(P)$

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Question 57.

Following figure shows :



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

▼ [Answer](#)

Answer: (a) Perfectly Elastic Supply

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Question 58.

Which of the following is correct ?

- (a) Perfectly Elastic Supply  $e_s = \infty$
- (b) High Elastic Supply  $e_s > 1$
- (c) Perfectly Inelastic Supply  $e_s = 0$
- (d) All the above

▼ [Answer](#)

Answer: (d) All the above

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Question 59.

$e_s = 0$  means that elasticity of supply is:

- (a) Perfectly Elastic Supply
- (b) Perfectly Inelastic Supply
- (c) Less Elastic Supply
- (d) Unit Elastic Supply

▼ [Answer](#)

Answer: (b) Perfectly Inelastic Supply

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Question 60.

If the price of goods rises by 60% but supply increases by only 5%, the supply of goods will be:

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

▼ [Answer](#)

Answer: (c) Inelastic

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Question 61.

The elasticity of a straight line supply curve originating from the centre of origin is:

- (a) Less than unity,
- (b) greater than unity
- (c) equal to unity
- (d) equal to zero

▼ [Answer](#)

Answer: (c) equal to unity

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Question 62.

When supply increases more with a result of small increase in price, the nature of supply will be :

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

▼ [Answer](#)

Answer: (a) Elastic

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Question 63.

When the proportionate change in the supply of goods is more than the proportionate change in its price, the elasticity of supply will be:

- (a) Less than Unit
- (b) Equal to Unit
- (c) Greater than Unit
- (d) Infinite

▼ [Answer](#)

Answer: (c) Greater than Unit

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Question 64.

If the price of the goods rises by 60% and supply increases by only 5%, the supply of goods will be :

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

▼ [Answer](#)

Answer: (c) Inelastic

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Question 65.

The measurement of the elasticity of supply is expressed as:

- (a)
- (b) .
- (c)  $\Delta Y$
- (d) .

▼ [Answer](#)

Answer: (a)

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Question 66.

There are factors of productions:

- (a) Two
- (b) Three
- (c) Four
- (d) Five

▼ [Answer](#)

Answer: (d) Five

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Question 67.

Fixed cost is also known as:

- (a) Variable cost
- (b) Actual cost
- (c) Supplementary cost
- (d) Short-term cost

▼ [Answer](#)

Answer: (c) Supplementary cost

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Question 68.

Supply falls on the same price when:

- (a) Where there is decrease in supply
- (b) When there is contraction in supply



- (c) When supply increases
- (d) When there is expansion in supply.

▼ [Answer](#)

Answer: (a) Where there is decrease in supply

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Question 69.

Active factor of production:

- (a) Capital
- (b) Labour
- (c) Land
- (d) None of these.

▼ [Answer](#)

Answer: (b) Labour

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Question 70.

In the short-run following factors are included in the process of production:

- (a) Fixed factors
- (b) Variable factors
- (c) Both (a) and (b)
- (d) None of these.

▼ [Answer](#)

Answer: (c) Both (a) and (b)

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[Fill in the blanks:](#)

1. Short-term production function is known as .....

▼ [Answer](#)

Answer: Law of variable proportion

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2. Returns to scale is related to .....

▼ [Answer](#)

Answer: Long term

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3. Cost incurred in per unit production is .....

▼ [Answer](#)

Answer: Average cost

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4. Increase in income from a unit of production is called .....



▼ [Answer](#)

Answer: Marginal cost

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5. A producer is in the state of equilibrium when he earns .....

▼ [Answer](#)

Answer: Profit

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6. Law of supply shows ..... relation between price and supply.

▼ [Answer](#)

Answer: Direct

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7. The elasticity of supply for milk and related good is .....

▼ [Answer](#)

Answer: Elastic.

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[State true or false:](#)

1. Rent theory of Ricardo is based on the law of Diminishing returns.

▼ [Answer](#)

Answer: True

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2. Law of decreasing returns to scale arises due to Non-divisibility.

▼ [Answer](#)

Answer: False

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3. Fixed cost is also known as supplementary cost.

▼ [Answer](#)

Answer: True

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4. In case of perfect competition, a firm attains maximum satisfaction when MC curve cut MR curve.

▼ [Answer](#)

Answer: False

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5. There is inverse relation between price and supply.

▼ Answer

Answer: False

6. The supply of perishable goods is inelastic.

▼ Answer

Answer: True

7. There are four laws of production.

▼ Answer

Answer: False.

Match the following:

| 'A'   | 'B'   |
|---|---|
| 1. Causes for the operation of the law of diminishing returns | (a) Firms's equilibrium   |
| 2. Long term process  | (b) Imperfect substitute of factors of production                 |
| 3. Marginal Revenue = Average Revenue.                        | (c) Returns to scale  |
| 4. Elasticity of supply                                       | (d) $e_s = 1$ .   |
| 5. Elastic supply   | (e) Proportionate change in supply proportionate change in price. |

▼ Answer

Answer:

| 'A'   | 'B'   |
|---|---|
| 1. Causes for the operation of the law of diminishing returns | (b) Imperfect substitute of factors of production                 |
| 2. Long term process  | (c) Returns to scale  |
| 3. Marginal Revenue = Average Revenue.                        | (a) Firms's equilibrium   |
| 4. Elasticity of supply                                       | (e) Proportionate change in supply proportionate change in price. |
| 5. Elastic supply   | (d) $e_s = 1$ .   |

