Economics

Economics

COST PRACTICE

Class 11 - Economics

Time Allowed: 1 hour   **Maximum Marks: 75**

Section A

1. What is the difference between fixed cost and variable cost of production?   **[1]**

    a) Both do not change with output   b) Both change with output

    c) Fixed cost changes with output but variable   d) Fixed cost does not change with output but
    cost does not   variable cost does

2. When the production level is zero, then the fixed cost is: **[1]**

    a) zero   b) positive

    c) negative   d) equal to variable cost

3. Average variable costs can be defined as: **[1]**

    a) TVC - Q   b) TVC + Q

    c) TVC $\div$ Q   d) TVC $\times$ Q

4. The shape of average cost curve is: **[1]**

    a) U-shaped   b) Line parallel to the y-axis

    c) Line parallel to the x-axis   d) Rectangular Hyperbola shaped

5. Implicit costs are   **[1]**

    a) Same as explicit costs   b) Total cost

    c) Opportunity costs   d) Imputed costs

6. Which of the following is an example of implicit cost? (Choose the correct alternative)   **[1]**

    a) Wages paid   b) Cost of Raw material

    c) None of these   d) Interest on owner's capital

7. The relationship between AC & MC is   **[1]**

    a) AC continues to fall till MC is greater than   b) AC continues to fall till MC is less than AC
    AC

    c) AC continues to rise till MC is less than AC   d) AC continues to fall till MC is equal to AC

8. Can the AC be less than the MC when AC is rising   **[1]**

    a) Yes   b) Can't say

    c) May be   d) No

9. Average fixed cost (AFC) is indicated by: **[1]**

	a) a rectangular hyperbola	b) a straight line parallel to X-axis
	c) a U-shaped curve	d) a straight line parallel to Y-axis

10. Changes in production quantity effect: **[1]**

a) Average cost	b) Marginal cost
c) Only Variable Cost	d) Only Fixed Cost

11. The fixed cost curve is a horizontal straight line to the X axis because **[1]**

a) IT remains same even if fixed factors change	b) It is impossible to change
c) It remains constant in the short run	d) It remains constant in the long run

12. TVC can be calculated as: **[1]**

a) TC - TFC	b) TC - TFC and ΣMC
c) $\frac{AVC}{Q}$	d) ΣMC

13. TVC curve starts from origin as **[1]**

a) TVC slopes upward from the origin at higher level of output	b) TVC is vertical curve from origin
c) TVC is zero at zero level of output	d) TVC is horizontal

14. Area under MC curve is equal to: **[1]**

a) AVC	b) AC
c) AFC	d) TVC

15. Can the AC be less than the MC when AC is falling **[1]**

a) May be	b) Can't say
c) No	d) Yes

16. Marginal cost of a good includes: **[1]**

a) Total cost	b) variable cost and fixed cost
c) only fixed cost	d) only variable cost

17. With the increase in output, the difference between total cost and total variable cost: **[1]**

a) None of these	b) Decreases
c) Increases	d) Remains Constant

18. Which curve is not affected by fixed cost? **[1]**

a) AFC curve	b) AC curve
c) MC curve	d) TC curve

19. Explain the relationship TC, TFC & TVC. **[1]**

a) $\frac{TVC}{TFC}$ = TC	b) TVC $\times$ TFC = TC
c) TVC - TFC = TC	d) TVC + TFC = TC

20. Fixed costs are also known as: **[1]**

a) indirect costs	b) supplementary costs
c) all of these	d) overhead costs

21. **Assertion (A):** The difference between AC and AVC is due to AFC. **[1]**

 **Reason (R):** As output increases AFC decreases, so the difference between AC and AVC decreases.

a) Both A and R are true and R is the correct explanation of A.	b) Both A and R are true but R is not the correct explanation of A.
c) A is true but R is false.	d) A is false but R is true.

22. **Assertion (A):** When Average Cost is constant, AC curve is at its minimum point. **[1]**

 Reason (R): At this point, MC curve cuts AC curve which implies MC = AC.

a) Both A and R are true and R is the correct explanation of A.	b) Both A and R are true but R is not the correct explanation of A.
c) A is true but R is false.	d) A is false but R is true.

23. **Assertion (A):** Average Cost will rise only when Marginal Cost rises. **[1]**

 Reason (R): Rise in AC takes place when MC is greater than AC and not necessarily when MC rises.

a) Both A and R are true and R is the correct explanation of A.	b) Both A and R are true but R is not the correct explanation of A.
c) A is true but R is false.	d) A is false but R is true.

24. What does shaded area show in figure? **[1]**
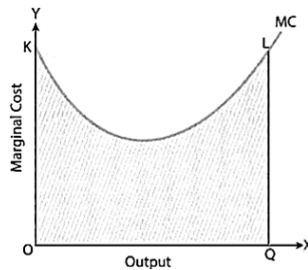
a) TVC	b) TC
c) ATC	d) TFC

25. The Average Fixed Cost at 4 units of output is Rs 20. Average Variable Cost at 5 units of output is Rs 40. **[1]** Average Cost of producing 5 units is ___ (choose the correct alternative)

a) Rs 20	b) Rs 56
c) Rs 40	d) Rs 60

26. Which of the following statement is true? **[1]**

 i. Fixed cost curve is parallel to X-axis because it changes at all levels of output.

 ii. Fixed cost curve is parallel to Y-axis because it remains constant at all levels of output.

 iii. Fixed cost curve is parallel to X-axis because it remains constant at all levels of output.

 iv. Fixed cost curve is parallel to Y-axis because it changes at all levels of output.

a) only ii	b) only iii
c) only iv	d) only i

27. Which statement of the following is true? **[1]**

a) AC = TFC – TVC

b) AC = AFC + AVC

c) AC = AFC + TVC

d) AC = TFC + AVC

28. Which of the following statement is true? **[1]**

a) MC curve cuts AC curve at its lowest point.

b) MC curve cuts AC curve at its ending point.

c) MC curve cuts AC curve at its starting point.

d) MC curve cuts AC curve at its highest point.

29. Which of the following is correct? **[1]**

   i. TVC = TC – TFC

  ii. TC = TVC - TFC

 iii. TFC = TVC + TC

 iv. TC = TVC $\times$ TFC

a) Option (i)

b) Option (iv)

c) Option (ii)

d) Option (iii)

30. Which of the following is correct? **[1]**

   i. MC = TFC $\times$ TVC

  ii. TC = TFC - TVC

 iii. MC = TC_{n-2} - TC_{n-1}

 iv. TC = TFC $\div$ Q

a) Option (i)

b) Option (iv)

c) Option (ii)

d) Option (iii)

31. What is the relation between Marginal Cost and Average Cost when Average Cost is constant? **[1]**

32. Marginal cost is always variable cost. Why? **[1]**

33. Mention any two examples of implicit cost incurred by a firm. **[1]**

34. What is the behaviour of Average Fixed Cost as output is decreased? **[1]**

35. A farmer takes a farm on rent and carries on farming with the help of family members. Identify explicit and implicit costs from this information. **[1]**

Section B

36. **Read the text carefully and answer the questions:** **[5]**

In economics, the marginal cost of production is the change in total production cost that comes from making or producing one additional unit. To calculate marginal cost, divide the change in production costs by the change in quantity. The purpose of analyzing marginal cost is to determine at what point an organization can achieve economies of scale to optimize production and overall operations. If the marginal cost of producing one additional unit is lower than the per-unit price, the producer has the potential to gain a profit.

(a) What is the reason behind the shape of marginal cost curve?

a) Law of increasing returns

b) Law of decreasing returns

c) Law of variable proportion

d) Law of diminishing marginal utility

(b) Marginal cost can be-

a) Marginal only

b) Fixed and variable cost both

        c) Variable cost only   d) Fixed cost only

(c)   Falling MC is in accordance with rising MP when there are

      a) Decreasing returns to a factor   b) Negative returns to a factor

      c) Constant returns to a factor   d) Increasing returns to a factor

(d)   Rising MC is in accordance with falling MP when there are –

      a) Decreasing returns to a factor   b) Increasing returns to a factor

      c) Negative returns to a factor   d) Constant returns to a factor

(e)   MP and MC are _____ to each other.

      a) Equal   b) Unequal

      c) Directly related   d) Opposite

Section C

37.   **Fill in the blanks:**   **[15]**

(a)   Expenditure incurred by the producer on the purchase of inputs from the market leads to _____. **[1]**
(Explicit cost, Implicit cost)

(b)   An increase in cost incurred in the production of an extra unit is called _____. **[1]**

(c)   Marginal cost curve cuts average cost curve from its _____. (bottom, top) **[1]**

(d)   In cost accounting, marginal costing does not include _____. **[1]**

(e)   If the average fixed cost of producing 4 units of output is ₹ 60, then the value of total fixed cost for **[1]**
producing 5 units will be _____. (Fill up the blank)

(f)   When production is zero, total cost will be equal to _____. (variable cost/fixed cost) **[1]**

(g)   When average cost (AC) is falling _____. (MC > AC, MC < AC) **[1]**

(h)   Difference between fixed and variable costs is found in _____. (short period, long period) **[1]**

(i)   Average cost curve is _____. (a straight line, U-shaped) **[1]**

(j)   The average cost is ₹ 40 and it is minimum when 8 units are produced. The marginal cost of **[1]**
producing 8 units is ₹ _____.

(k)   Cost = Explicit cost + _____ **[1]**

(l)   The costs which vary as the level of output varies are called _____. (prime costs, real costs) **[1]**

(m)   Cost incurred in per unit production is _____. **[1]**

(n)   Expenditure on raw material leads to _____. (fixed cost, variable cost) **[1]**

(o)   Marginal cost may be rising even when the average cost is _____. (rising/falling) **[1]**

Section D

38.   **State True or False:**   **[20]**

(a)   Marginal cost curve cuts average cost curve at its minimum point. **[1]**

(b)   Average variable cost tends to fall, stabilise and rise as output increases. **[1]**

(c)   MC is greater than AC when production is in a state of diminishing returns. **[1]**

(d)   Even when the firm stops production in a short period, it has to incur the loss of fixed costs. **[1]**

(e)   Fixed cost must be greater than variable cost when output is zero. **[1]**

(f)   The average total cost and average variable cost are apart from each other by a constant factor. **[1]**

(g)   Marginal cost may be rising even when the average cost is falling. **[1]**

(h)   The average cost does not fall unless the marginal cost also falls. **[1]**

(i)   Average variable cost starts from the point of origin and rises upwards towards the right.   **[1]**

(j)   Total cost is the sum total of marginal costs.   **[1]**

(k)   AFC is U-shaped.   **[1]**

(l)   Average fixed cost curve is a rectangular hyperbola.   **[1]**

(m)   Area under MC curve = TVC.   **[1]**

(n)   Implicit costs are costs of self-owned and self-employed resources.   **[1]**

(o)   As output rises, the difference between total cost and total variable cost tends to fall.   **[1]**

(p)   Marginal cost can never be constant.   **[1]**

(q)   Average cost curve cuts Average variable cost curve, at its minimum level.   **[1]**

(r)   Following increase in output, the reducing difference between average total cost and average variable cost ultimately becomes zero.   **[1]**

(s)   Variable cost is incurred before production is started.   **[1]**

(t)   Even when marginal cost is rising, the average variable cost may fall.   **[1]**