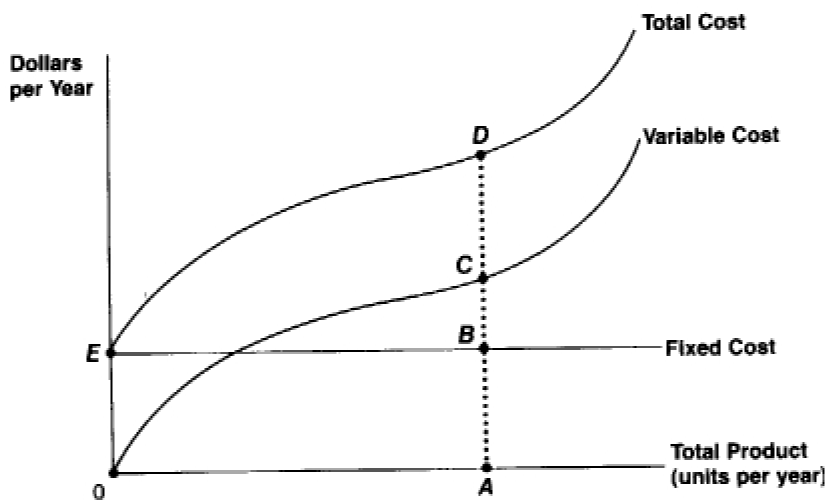
ECO402 Theory of Cost MIDTERM AND FINAL TERM SOLVED MCQS

1. In the short run, a firm's fixed cost
   a. is zero.
   b. **cannot be escaped.**
   c. can be escaped only by cutting production to zero.
   d. is not correctly described by any of the above.www.vchowk.com

2. When average total cost rises from $10 to $30 as total production rises from 100 to 300 units, average variable cost
   a. **cannot be calculated.**
   b. equals $10.
   c. equals $20.
   d. equals $30. www.vchowk.com

When answering the next four questions (3-6), refer to the following graph.



3. When total product equals 0*A*,
   a. variable cost equals *BC*. www.vchowk.com
   b. average variable cost equals *BC* divided by 0*A*.
   c. **fixed cost equals *CD*.**
   d. all of the above are true.

4. When total product equals 0*A*, the associated marginal cost
   a. cannot be determined from this graph.
   b. exceeds average total cost.
   c. equals *DA* divided by 0*A*.
   d. **equals the slope of the variable-cost curve at *C*.**

5. According to this graph,
   a. **marginal cost is positive at all levels or output.**
   b. marginal cost is falling whenever total product rises.
   c. marginal cost exceeds average total cost at all levels of output.
   d. all of the above are true.

6. According to this graph,
   a. average total cost exceeds marginal cost at all levels of output.
   b. **average total cost exceeds average variable cost at all levels of output.**
   c. average fixed cost is the same at all levels of output.
   d. average fixed cost exceeds average variable cost when total product equals 0*A*.

When answering the next 3 questions (7-9), refer to the graph below:

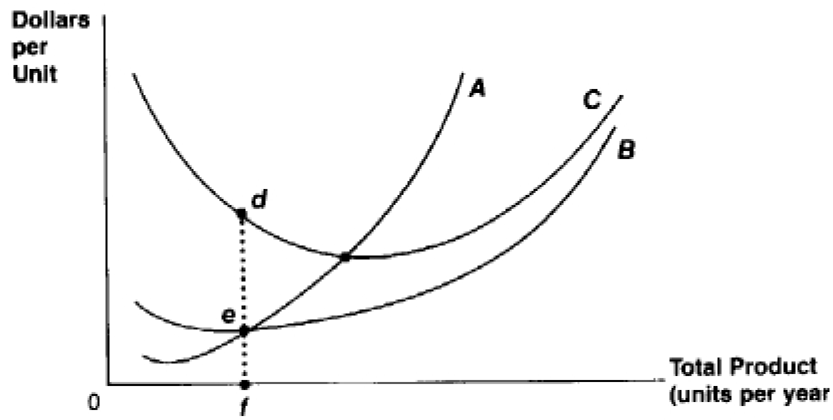
7. Line *B* represents
   a. marginal cost.
   b. **average variable cost.**
   c. average fixed cost.
   d. average total cost.

8. The vertical difference, at any level of output, between lines *B* and *C* represents
   a. marginal cost.
   b. average variable cost.
   c. average total cost.
   d. **average fixed cost.**

9. When output equals 0*f*,
   a. total cost equals 0*f* times *fe*.
   b. fixed cost equals 0*f* times *fe*.
   c. **total variable cost equals 0*f* times *fe*.**
   d. marginal cost equals *ed*.

10. At the point where a straight line from the origin is tangent to the variable-cost curve
   a. marginal cost equals average total cost.
   b. marginal cost equals average fixed cost.
   c. **marginal cost equals average variable cost.**
   d. average total cost is minimized.

11. If a profit-maximizing firm's marginal product of labor equals 1 ton of output, while the marginal product of capital equals 7 tons of output and the use of capital is priced at $14 per unit, then
   a. **the price of labor must be $2.**
   b. the price of labor must be $7.
   c. the price of labor must be $14 as well.
   d. none of the above is true.


Dollars
per
Unit
A
C
B
d
e
0
f
Total Product
(units per year

12. A firm's long-run average-total-cost line is
    a. identical to its long-run marginal-cost line.
    b. also its long-run supply curve.
    c. in fact the average-total-cost curve of the optimal plant.
    d. **tangent to all the curves of short-run average total cost.**

13. Average fixed cost
    a. is U-shaped.
    b. **declines over the entire output range.**
    c. is a long-run concept only.
    d. is influenced by diminishing returns to production.
    e. is described by none of the above.

14. If average total cost is 100 for a given output and marginal cost is 70, we then know that average fixed cost is
    a. 30.
    b. 170.
    c. 70.
    d. **not possible to determine with the information given.**

15. If average fixed cost is 40 and average variable cost is 80 for a given output, we then know that average total cost is
    a. 40.
    b. **120.**
    c. 80.
    d. not possible to determine with the information given.

16. The output where diminishing returns to production begin is also the output where
    a. **marginal cost is at a minimum.**
    b. average total cost is at a minimum.
    c. average variable cots is at a minimum.
    d. marginal and average cost intersect.

17. Which of the following statements about marginal cost is incorrect?
    a. **A U-shaped marginal cost curve implies the existence of diminishing returns over all ranges of output.**
    b. When marginal cost equals average cost, average cost is at its minimum.
    c. In the short run, the shape of the marginal cost curve is due to the law of diminishing marginal returns.
    d. When marginal cost is falling, total cost is rising.

18. Which of the following statements about the relationship between marginal cost and average cost is correct?
    a. When MC is falling, AC is falling.
    b. AC equals MC and MC's lowest point.
    c. **When MC exceeds AC, AC must be rising.**
    d. When AC exceeds MC, MC must be rising.

19. The slope of the total variable cost curve equals
    a. average variable cost.
    b. **marginal cost.**
    c. average cost.
    d. marginal physical product.

20. In the short run, diminishing marginal returns are implied by
    a. **rising marginal cost.**
    b. rising average cost.
    c. rising average variable cost.
    d. all of the above.