Practice Set: MCQ

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Q. Which is(are) the factor(s) of production

1. labor
2. capital
3. organization
4. all the above

Q. Which is(are) the factor(s) of production

1. labor
2. capital
3. organization
4. all the above

A. 4

Q. According to the modern definition of production, which one is not a part of production

1. services provide by doctors
2. opening a shop and selling different commodities
3. making cloths for domestic consumption
4. producing and selling rice

Q. According to the modern definition of production, which one is not a part of production

1. services provide by doctors
2. opening a shop and selling different commodities
3. making cloths for domestic consumption
4. producing and selling rice

A. 3

Q. In economics by capital we mean

1. physical capital
2. financial capital
3. debt capital
4. all the above

Q. In economics by capital we mean

1. physical capital
2. financial capital
3. debt capital
4. all the above

A. 4

Q. In economics the word **land** means

1. field
2. rainfall
3. sunlight
4. all the above

Q. In economics the word **land** means

1. field
2. rainfall
3. sunlight
4. all the above

A. 4

Q. The relation between physical output of a production process to physical inputs is known as:

1. Consumption function
2. Production function
3. Utility function
4. Sales function

Q. The relation between physical output of a production process to physical inputs is known as:

1. Consumption function
2. Production function
3. Utility function
4. Sales function

A. 2

Q. Which is not included in **labor**

1. selling commodities
2. doing job in a bank
3. doing some household work
4. producing cotton for sale

Q. Which is not included in **labor**

1. selling commodities
2. doing job in a bank
3. doing some household work
4. producing cotton for sale

A. 3

Q. Which is the correct example of a production function?

1. $Q = K + L$
2. $Q = \min\{K, L\}$
3. $Q = KL$
4. all the above

Q. Which is the correct example of a production function?

1. $Q = K + L$
2. $Q = \min\{K, L\}$
3. $Q = KL$
4. all the above

A. 4

Q. Which of the production function has discontinuous isoquant

1. $Q = K + L$
2. $Q = \min\{K, L\}$
3. $Q = KL$
4. none of the above

Q. Which of the production function has discontinuous isoquant

1. $Q = K + L$
2. $Q = \min\{K, L\}$
3. $Q = KL$
4. none of the above

A. 4

Q. Which is not a correct assumption for the law of variable proportions

1. Only one factor is variable while others are held constant
2. There is no change in technology
3. It assumes a long-run situation
4. It is possible to vary the proportions in which different inputs are combined

Q. Which is not a correct assumption for the law of variable proportions

1. Only one factor is variable while others are held constant
2. There is no change in technology
3. It assumes a long-run situation
4. It is possible to vary the proportions in which different inputs are combined

A. 3

Q. Which is correct for the law of variable proportions

1. How much output change if the number of units of a variable factor is increased, keeping other factors constant
2. How much output change if the number of units of a variable factor is increased, with other factors also increase with the same amount
3. How much output change if the number of units of a variable factor is increased, with other factors also increase with a slow rate
4. How much output change if the number of units of a variable factor is increased, with other factors also increase with a fast rate

Q. Which is correct for the law of variable proportions

1. How much output change if the number of units of a variable factor is increased, keeping other factors constant
2. How much output change if the number of units of a variable factor is increased, with other factors also increase with the same amount
3. How much output change if the number of units of a variable factor is increased, with other factors also increase with a slow rate
4. How much output change if the number of units of a variable factor is increased, with other factors also increase with a fast rate

A. 1

Q. The maximum value of average product of labor is

1. greater than maximum value of marginal product of labor
2. less than maximum value of marginal product of labor
3. equal to the maximum value of marginal product of labor
4. can't compare

Q. The maximum value of average product of labor is

1. greater than maximum value of marginal product of labor
2. less than maximum value of marginal product of labor
3. equal to the maximum value of marginal product of labor
4. can't compare

A. 2

Q. Which is not the correct stage of production in the law of variable proportions

1. Increasing Returns to Scale
2. Decreasing Returns to Scale
3. Increasing Marginal Product
4. Decreasing Marginal Product

Q. Which is not the correct stage of production in the law of variable proportions

1. Increasing Returns to Scale
2. Decreasing Returns to Scale
3. Increasing Marginal Product
4. Decreasing Marginal Product

A. 3

Q. Which is correct for returns to scale

1. Returns to scale refer to the relationship between changes in output and proportionate changes in one factor of production
2. Returns to scale refer to the relationship between changes in output and proportionate changes in all factors of production
3. Returns to scale refer to the relationship between changes in output and different changes in all factors of production
4. Returns to scale refer to the relationship between changes in output and different changes in two factors of production

Q. Which is correct for returns to scale

1. Returns to scale refer to the relationship between changes in output and proportionate changes in one factor of production
2. Returns to scale refer to the relationship between changes in output and proportionate changes in all factors of production
3. Returns to scale refer to the relationship between changes in output and different changes in all factors of production
4. Returns to scale refer to the relationship between changes in output and different changes in two factors of production

A. 2

Q. If we want to increase production then we need to purchase more raw material. This cost is called

1. Fixed cost
2. Variable cost
3. Opportunity cost
4. Sunk cost

Q. If we want to increase production then we need to purchase more raw material. This cost is called

1. Fixed cost
2. Variable cost
3. Opportunity cost
4. Sunk cost

A. 2

Q. The cost which will never return in any stage of business is called

1. Fixed cost
2. Variable cost
3. Opportunity cost
4. Sunk cost

Q. The cost which will never return in any stage of business is called

1. Fixed cost
2. Variable cost
3. Opportunity cost
4. Sunk cost

A. 4

Q. The cost of one thing in terms of the alternative given up is called

1. Fixed cost
2. Variable cost
3. Opportunity cost
4. Sunk cost

Q. The cost of one thing in terms of the alternative given up is called

1. Fixed cost
2. Variable cost
3. Opportunity cost
4. Sunk cost

A. 3

Q. Along the isoquant

1. quantity is constant
2. cost is constant
3. utility is constant
4. none of the above

Q. Along the isoquant

1. quantity is constant
2. cost is constant
3. utility is constant
4. none of the above

A. 1

Q. Along the isocost line

1. quantity is constant
2. cost is constant
3. utility is constant
4. none of the above

Q. Along the isocost line

1. quantity is constant
2. cost is constant
3. utility is constant
4. none of the above

A. 2

Q. When marginal product is increasing, total product is

1. convex
2. concave
3. linear
4. none of the above

Q. When marginal product is increasing, total product is

1. convex
2. concave
3. linear
4. none of the above

A. 1

Q. When marginal product is negative, total product is

1. increasing
2. decreasing
3. constant
4. equal to zero

Q. When marginal product is negative, total product is

1. increasing
2. decreasing
3. constant
4. equal to zero

A. 2

Q. When average product is maximum, marginal product

1. lies above average product
2. lies below average product
3. is equal to average product
4. is equal to zero

Q. When average product is maximum, marginal product

1. lies above average product
2. lies below average product
3. is equal to average product
4. is equal to zero

A. 3

Q. When total product is maximum

1. marginal product is zero
2. marginal product is positive
3. marginal product is negative
4. average product is zero

Q. When total product is maximum

1. marginal product is zero
2. marginal product is positive
3. marginal product is negative
4. average product is zero

A. 1

Q. Consider the production function, $q = min\{K, L\}$, the isoquant is

1. L-shaped
2. downward sloping concave
3. downward sloping linear
4. upward sloping concave

Q. Consider the production function, $q = min\{K, L\}$, the isoquant is

1. L-shaped
2. downward sloping concave
3. downward sloping linear
4. upward sloping concave

A. 1

Q. Consider the production function, $q = 3K + L$, the isoquant is

1. L-shaped
2. U-shaped
3. downward sloping linear
4. upward sloping linear

Q. Consider the production function, $q = 3\,K + L$, the isoquant is

1. L-shaped
2. U-shaped
3. downward sloping linear
4. upward sloping linear

A. 3

Q. Consider the production function, $q = 2\ K + 5\ L$, the slope of the isoquant is

1. - (5/2)
2. - (2/5)
3. 5/2
4. 2/5

Q. Consider the production function, $q = 2\ K + 5\ L$, the slope of the isoquant is

1. - (5/2)
2. - (2/5)
3. 5/2
4. 2/5

A. 1

Q. Consider the production function $Q = 10K^{0.3}L^{0.7}$. The average product of capital is

1. $10(K/L)^{0.3}$
2. $10(L/K)^{0.7}$
3. $3(L/K)^{0.7}$
4. $7(K/L)^{0.3}$

Q. Consider the production function $Q = 10K^{0.3}L^{0.7}$. The average product of capital is

1. $10(K/L)^{0.3}$
2. $10(L/K)^{0.7}$
3. $3(L/K)^{0.7}$
4. $7(K/L)^{0.3}$

A. 2

Q. Consider the production function $Q = 10K^{0.3}L^{0.7}$. The marginal product of capital is

1. $10(K/L)^{0.3}$
2. $10(L/K)^{0.7}$
3. $3(L/K)^{0.7}$
4. $7(K/L)^{0.3}$

Q. Consider the production function $Q = 10K^{0.3}L^{0.7}$. The marginal product of capital is

1. $10(K/L)^{0.3}$
2. $10(L/K)^{0.7}$
3. $3(L/K)^{0.7}$
4. $7(K/L)^{0.3}$

A. 3

Q. When total product curve is concave, marginal product curve is

1. Horizontal
2. Vertical
3. Upward sloping
4. Downward sloping

Q. When total product curve is concave, marginal product curve is

1. Horizontal
2. Vertical
3. Upward sloping
4. Downward sloping

A. 4

Q. Consider the production function $Q = \min\{K, L\}$ The average product curve

1. is discontinuous
2. has a kink
3. is downward sloping throughout
4. is horizontal straight line throughout

Q. Consider the production function $Q = \min\{K, L\}$ The average product curve

1. is discontinuous
2. has a kink
3. is downward sloping throughout
4. is horizontal straight line throughout

A. 2

Q. Marginal product curve intersect average product at a point where

1. marginal product is maximum
2. marginal product is minimum
3. average product is maximum
4. average product is minimum

Q. Marginal product curve intersect average product at a point where

1. marginal product is maximum
2. marginal product is minimum
3. average product is maximum
4. average product is minimum

A. 3

Q. Consider the production function $Q = \min\{K, L\}$ The total product curve

1. is discontinuous
2. has a kink
3. is upward sloping throughout
4. is horizontal straight line throughout

Q. Consider the production function $Q = \min\{K, L\}$ The total product curve

1. is discontinuous
2. has a kink
3. is upward sloping throughout
4. is horizontal straight line throughout

A. 2

Q. Consider the production function $Q = \min\{K, L\}$ The marginal product curve is

1. is discontinuous
2. has a kink
3. is upward sloping throughout
4. is downward sloping throughout

Q. Consider the production function $Q = \min\{K, L\}$ The marginal product curve is

1. is discontinuous
2. has a kink
3. is upward sloping throughout
4. is downward sloping throughout

A. 1

Q. At stage II of production

1. marginal product is falling and it is more than average product
2. marginal product is falling and it is less than average product
3. marginal product is rising and it is more than average product
4. marginal product is rising and it is less than average product

Q. At stage II of production

1. marginal product is falling and it is more than average product
2. marginal product is falling and it is less than average product
3. marginal product is rising and it is more than average product
4. marginal product is rising and it is less than average product

A. 2

Q. At which stage of production, the firm will operate

1. Stage I
2. Stage II
3. Stage III
4. Stage IV

Q. At which stage of production, the firm will operate

1. Stage I
2. Stage II
3. Stage III
4. Stage IV

A. 2

Q. At stage I

1. fixed inputs are not fully utilized
2. fixed inputs are fully utilized
3. variable inputs are not fully utilized
4. variable inputs are fully utilized

Q. At stage I

1. fixed inputs are not fully utilized
2. fixed inputs are fully utilized
3. variable inputs are not fully utilized
4. variable inputs are fully utilized

A. 1

Q. Isoquants are generally

1. downward sloping and convex
2. downward sloping and concave
3. downward sloping and linear
4. horizontal

Q. Isoquants are generally

1. downward sloping and convex
2. downward sloping and concave
3. downward sloping and linear
4. horizontal

A. 1

Q. Higher isoquant generally, indicates

1. lower output
2. higher output
3. same output
4. can't say

Q. Higher isoquant generally, indicates

1. lower output
2. higher output
3. same output
4. can't say

A. 2

Q. Slope of an isoquant is

1. $-(MP_L/MP_K)$
2. MP_L/MP_K
3. $-(w/r)$
4. w/r

Q. Slope of an isoquant is

1. $-(MP_L/MP_K)$
2. MP_L/MP_K
3. $-(w/r)$
4. w/r

A. 1

Q. Slope of the isocost line is

1. $-(MP_L/MP_K)$
2. MP_L/MP_K
3. $-(w/r)$
4. w/r

Q. Slope of the isocost line is

1. $-(MP_L/MP_K)$
2. MP_L/MP_K
3. $-(w/r)$
4. w/r

A. 3

Q. The vertical intercept of the isocost line is

1. $\left(0, \frac{\overline{C}}{w}\right)$
2. $\left(0, \frac{\overline{C}}{r}\right)$
3. $\left(\frac{\overline{C}}{w}, 0\right)$
4. $\left(\frac{\overline{C}}{r}, 0\right)$

Q. The vertical intercept of the isocost line is

1. $\left(0, \frac{\overline{C}}{w}\right)$
2. $\left(0, \frac{\overline{C}}{r}\right)$
3. $\left(\frac{\overline{C}}{w}, 0\right)$
4. $\left(\frac{\overline{C}}{r}, 0\right)$

A. 2

Q. The horizontal intercept of the isocost line is

1. $\left(0, \frac{\overline{C}}{w}\right)$
2. $\left(0, \frac{\overline{C}}{r}\right)$
3. $\left(\frac{\overline{C}}{w}, 0\right)$
4. $\left(\frac{\overline{C}}{r}, 0\right)$

Q. The horizontal intercept of the isocost line is

1. $\left(0, \frac{\overline{C}}{w}\right)$
2. $\left(0, \frac{\overline{C}}{r}\right)$
3. $\left(\frac{\overline{C}}{w}, 0\right)$
4. $\left(\frac{\overline{C}}{r}, 0\right)$

A. 3

Q. Cost minimizing capital labor is determined from which condition?

1. $MP_L/MP_K = w/r$
2. $MP_L/MP_K > w/r$
3. $MP_L/MP_K < w/r$
4. $MP_L/MP_K = r/w$

Q. Cost minimizing capital labor is determined from which condition?

1. $MP_L/MP_K = w/r$
2. $MP_L/MP_K > w/r$
3. $MP_L/MP_K < w/r$
4. $MP_L/MP_K = r/w$

A. 1

Q. Profit maximizing capital labor is determined from which condition?

1. $MP_L/MP_K = w/r$
2. $MP_L/MP_K > w/r$
3. $MP_L/MP_K < w/r$
4. $MP_L/MP_K = r/w$

Q. Profit maximizing capital labor is determined from which condition?

1. $MP_L/MP_K = w/r$
2. $MP_L/MP_K > w/r$
3. $MP_L/MP_K < w/r$
4. $MP_L/MP_K = r/w$

A. 1

Q. Consider the production function $Q = K^{0.3}L^{0.7}$. We have $w = 7$, $r = 3$ and $\overline{C} = 100$. What is the profit maximizing levels of capital and labor

1. K $= 30$, L $= 70$
2. K $= 70$, L $= 30$
3. K $= 10$, L $= 10$
4. K $= 100$, L $= 100$

Q. Consider the production function $Q = K^{0.3}L^{0.7}$. We have $w = 7$, $r = 3$ and $\overline{C} = 100$. What is the profit maximizing levels of capital and labor

1. K $= 30$, L $= 70$
2. K $= 70$, L $= 30$
3. K $= 10$, L $= 10$
4. K $= 100$, L $= 100$

A. 3

Q. Suppose $\overline{C}$ falls, then the isocost line will

1. shift upward parallely
2. shift downward parallely
3. rotate upward
4. rotate downward

Q. Suppose $\overline{C}$ falls, then the isocost line will

1. shift upward parallely
2. shift downward parallely
3. rotate upward
4. rotate downward

A. 2

Q. Suppose rent increases, then the isocost line will

1. rotate downward keeping horizontal intercept fixed
2. rotate upward keeping horizontal intercept fixed
3. rotate downward keeping vertical intercept fixed
4. rotate upward keeping vertical intercept fixed

Q. Suppose rent increases, then the isocost line will

1. rotate downward keeping horizontal intercept fixed
2. rotate upward keeping horizontal intercept fixed
3. rotate downward keeping vertical intercept fixed
4. rotate upward keeping vertical intercept fixed

A. 1

Q. Suppose wage rate falls, then the isocost line will

1. rotate downward keeping horizontal intercept fixed
2. rotate upward keeping horizontal intercept fixed
3. rotate downward keeping vertical intercept fixed
4. rotate upward keeping vertical intercept fixed

Q. Suppose wage rate falls, then the isocost line will

1. rotate downward keeping horizontal intercept fixed
2. rotate upward keeping horizontal intercept fixed
3. rotate downward keeping vertical intercept fixed
4. rotate upward keeping vertical intercept fixed

A. 4

Q. When $\frac{MP_L}{w} > \frac{MP_K}{r}$, then profit will rise if

1. we substitute labor by capital
2. we substitute capital by labor
3. both the above
4. none of the above

Q. When $\frac{MP_L}{w} > \frac{MP_K}{r}$, then profit will rise if

1. we substitute labor by capital
2. we substitute capital by labor
3. both the above
4. none of the above

A. 2

Q. Suppose we have a production function $F(K, L)$, such that for all $\lambda > 1$, we have $F(\lambda K, \lambda L) = \lambda F(K, L)$, then the production function exhibits

1. constant return to scale
2. increasing return to scale
3. decreasing return to scale
4. none of the above

Q. Suppose we have a production function $F(K, L)$, such that for all $\lambda > 1$, we have $F(\lambda K, \lambda L) = \lambda F(K, L)$, then the production function exhibits

1. constant return to scale
2. increasing return to scale
3. decreasing return to scale
4. none of the above

A. 1

Q. Consider the production function $Q = 10(KL)^{0.6}$. This production function exhibits,

1. constant return to scale
2. increasing return to scale
3. decreasing return to scale
4. none of the above

Q. Consider the production function $Q = 10(KL)^{0.6}$. This production function exhibits,

1. constant return to scale
2. increasing return to scale
3. decreasing return to scale
4. none of the above

A. 2

Q. Consider the production function $Q = \min\{\frac{K}{50}, \frac{L}{64}\}$. The production function exhibits,

1. constant return to scale
2. increasing return to scale
3. decreasing return to scale
4. none of the above

Q. Consider the production function $Q = \min\{\frac{K}{50}, \frac{L}{64}\}$. The production function exhibits,

1. constant return to scale
2. increasing return to scale
3. decreasing return to scale
4. none of the above

A. 1

Q. Consider the following table

K	L	Q
2	4	10
16	32	100

We have

1. Constant return to scale
2. Increasing return to scale
3. Decreasing return to scale
4. None of the above

Q. Consider the following table

K	L	Q
2	4	10
16	32	100

We have

1. Constant return to scale
2. Increasing return to scale
3. Decreasing return to scale
4. None of the above

A. 2

Q. Consider the following table

K	L	Q
3	5	45
63	x	945

If we know that the production process exhibits constant return to scale then the value of x is

1. 85
2. 95
3. 105
4. 115

Q. Consider the following table

K	L	Q
3	5	45
63	x	945

If we know that the production process exhibits constant return to scale then the value of x is

1. 85
2. 95
3. 105
4. 115

A. 3

Q. Accounting cost does not include

1. cost of capital
2. cost of licensing
3. explicit cost
4. implicit cost

Q. Accounting cost does not include

1. cost of capital
2. cost of licensing
3. explicit cost
4. implicit cost

A. 4

Q. In accounting it is generally assumed that the total cost curve is

1. linear
2. concave
3. convex
4. first concave then convex

Q. In accounting it is generally assumed that the total cost curve is

1. linear
2. concave
3. convex
4. first concave then convex

A. 1

Q. Economists generally assumed that the total cost curve is

1. linear
2. concave
3. convex
4. first concave then convex

Q. Economists generally assumed that the total cost curve is

1. linear
2. concave
3. convex
4. first concave then convex

A. 4

Q. Private cost does not include

1. cost of capital
2. cost of labor
3. cost of licensing
4. cost of pollution

Q. Private cost does not include

1. cost of capital
2. cost of labor
3. cost of licensing
4. cost of pollution

A. 4

Q. Social cost is beared by

1. the private players
2. the general public
3. both of them
4. none of them

Q. Social cost is beared by

1. the private players
2. the general public
3. both of them
4. none of them

A. 3

Q. In the short run

1. all the factors are fixed
2. all the factors are variable
3. some of the factors are fixed
4. none of the above

Q. In the short run

1. all the factors are fixed
2. all the factors are variable
3. some of the factors are fixed
4. none of the above

A. 3

Q. Suppose it is given that output $= 3$, total fixed cost $= 10$ and total variable cost $= 50$. The total cost is equal to

1. 20
2. 60
3. 40/3
4. 40

Q. Suppose it is given that output $= 3$, total fixed cost $= 10$ and total variable cost $= 50$. The total cost is equal to

1. 20
2. 60
3. 40/3
4. 40

A. 2

Q. Suppose it is given that output $= 3$, total fixed cost $= 10$ and total variable cost $= 50$. The average cost is

1. 20
2. 60
3. 40/3
4. 40

Q. Suppose it is given that output $= 3$, total fixed cost $= 10$ and total variable cost $= 50$. The average cost is

1. 20
2. 60
3. 40/3
4. 40

A. 1

Q. Consider the following table

Q	TC	MC
2	10	5
6	22	x

The value of x is

1. 2
2. 3
3. 4
4. 5

Q. Consider the following table

Q	TC	MC
2	10	5
6	22	x

The value of x is

1. 2
2. 3
3. 4
4. 5

A. 2

Q. Suppose TC $= 100$, TFC $= 20$, AFC $= 4$. The value of AVC is

1. 12
2. 14
3. 16
4. 18

Q. Suppose TC $= 100$, TFC $= 20$, AFC $= 4$. The value of AVC is

1. 12
2. 14
3. 16
4. 18

A. 3

Q. Suppose AVC $= 20$, AFC $= 10$, TVC $= 100$. The value of TC is

1. 100
2. 150
3. 200
4. 250

Q. Suppose AVC $= 20$, AFC $= 10$, TVC $= 100$. The value of TC is

1. 100
2. 150
3. 200
4. 250

A. 2

Q. Suppose the production function is $Q = \min\left\{\frac{K}{3}, \frac{L}{2}\right\}$. Suppose K $= 15$ and L $= 9$. The marginal product of labor is

1. 0.4
2. 0.5
3. 0.6
4. 0

Q. Suppose the production function is $Q = \min\{\frac{K}{3}, \frac{L}{2}\}$. Suppose K $= 15$ and L $= 9$. The marginal product of labor is

1. 0.4
2. 0.5
3. 0.6
4. 0

A. 2

Q. Suppose the production function is $Q = \min\{\frac{K}{3}, \frac{L}{2}\}$. Suppose K $= 15$ and L $= 9$. The marginal product of capital is

1. 0.4
2. 0.5
3. 0.6
4. 0

Q. Suppose the production function is $Q = \min\{\frac{K}{3}, \frac{L}{2}\}$. Suppose K = 15 and L = 9. The marginal product of capital is

1. 0.4
2. 0.5
3. 0.6
4. 0

A. 4

Q. Suppose the production function is $Q = 10(KL)^{0.5}$. Suppose K = 3 and L = 12. The average product of capital is

1. 5
2. 10
3. 15
4. 20

Q. Suppose the production function is $Q = 10(KL)^{0.5}$. Suppose K = 3 and L = 12. The average product of capital is

1. 5
2. 10
3. 15
4. 20

A. 4

Q. The curve that passes through the minimum point of AC is

1. AVC
2. MC
3. AFC
4. TVC

Q. The curve that passes through the minimum point of AC is

1. AVC
2. MC
3. AFC
4. TVC

A. 2

Q. The minimum point of AVC lies to

1. the left of minimum point of AC
2. the right of minimum point of AC
3. vertically above the minimum point of AC
4. vertically below the minimum point of AC

Q. The minimum point of AVC lies to

1. the left of minimum point of AC
2. the right of minimum point of AC
3. vertically above the minimum point of AC
4. vertically below the minimum point of AC

A. 1

Q. AFC is

1. downward sloping straight line
2. upward sloping straight line
3. downward sloping convex to the origin
4. rectangular hyperbola

Q. AFC is

1. downward sloping straight line
2. upward sloping straight line
3. downward sloping convex to the origin
4. rectangular hyperbola

A. 4

Q. Suppose government imposes per unit tax on output. That tax rate is $t > 0$. The total cost is now

$$TC = C(Q) + tQ$$

where $C(Q)$ was that total cost before tax. The new average cost will

1. shift parallely upward
2. shift parallely downward
3. shift to left
4. shift to right

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2. shift parallely downward
3. shift to left
4. shift to right

A. 1

Q. Again consider the total cost function

$$TC = C(Q) + tQ.$$

The new marginal cos will

1. shift parallely upward
2. shift parallely downward
3. shift to left
4. shift to right

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Q. $\frac{\mathrm{d}AVC}{\mathrm{d}Q}$ is equal to

1. $\frac{MC-AVC}{Q}$
2. $\frac{AVC-MC}{Q}$
3. $\frac{Q}{MC-AVC}$
4. $\frac{Q}{AVC-MC}$

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2. $\frac{AVC-MC}{Q}$
3. $\frac{Q}{MC-AVC}$
4. $\frac{Q}{AVC-MC}$

A. 1

Q. Under constant returns to scale, in the long run, the MC curve is

1. downward sloping
2. upward sloping
3. vertical
4. horizontal

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3. vertical
4. horizontal

A. 4

Q. Under increasing returns to scale, in the long run, the AC curve is

1. downward sloping
2. upward sloping
3. vertical
4. horizontal

Q. Under increasing returns to scale, in the long run, the AC curve is

1. downward sloping
2. upward sloping
3. vertical
4. horizontal

A. 1

Q. Why short run AC curve is initially downward sloping

1. due to constant return to scale
2. due to increasing return to scale
3. due to decreasing return to scale
4. due to the presence of positive fixed cost

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2. due to increasing return to scale
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A. 4

Q. Suppose both wage rate and rent doubled, then the isocost line will

1. shift parallely upward
2. shift parallely downward
3. rotates leftward keeping the vertical intercept fixed
4. rotates rightward keeping the vertical intercept fixed

Q. Suppose both wage rate and rent doubled, then the isocost line will

1. shift parallely upward
2. shift parallely downward
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4. rotates rightward keeping the vertical intercept fixed

A. 2

Q. Suppose wage doubled but rent increases three times, then the isocost line will

1. rotate rightward and the vertical intercept decreases
2. rotate rightward and the vertical intercept increases
3. rotate leftward and the vertical intercept decreases
4. rotate leftward and the vertical intercept increases

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1. rotate rightward and the vertical intercept decreases
2. rotate rightward and the vertical intercept increases
3. rotate leftward and the vertical intercept decreases
4. rotate leftward and the vertical intercept increases

A. 1

Q. Suppose the production function is $Q = \min\{\frac{K}{3}, \frac{L}{2}\}$. Suppose $w = 5$, $r = 2$ and $\overline{C} = 100$. What is the profit maximizing levels of capital and labor

1. K $= 18.75$, L $= 12.5$
2. K $= 12.5$, L $= 18.75$
3. K $= 19.75$, L $= 11.5$
4. K $= 11.5$, L $= 19.75$

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A. 1

Q. Suppose in the above question, the price of the product is 200. The total revenue of the firm is

1. 1100
2. 1150
3. 1200
4. 1250

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1. 1100
2. 1150
3. 1200
4. 1250

A. 4

Q. The profit of the firm is

1. 1050
2. 1100
3. 1150
4. 1200

Q. The profit of the firm is

1. 1050
2. 1100
3. 1150
4. 1200

A. 3