Costs and Output Decisions in Production

Economics · Answer Key · 22 Questions

1. What is the primary objective of a firm in production decisions?

A) Maximizing total revenue
B) Minimizing total cost
C) Maximizing profit
D) Increasing market share

2. How is total profit determined?

A) Total Revenue / Total Cost
B) Total Revenue + Total Cost
C) Total Revenue - Total Cost
D) Total Cost - Total Revenue

3. What is the formula for calculating Total Revenue (TR)?

A) Average Total Cost x Quantity
B) Price x Quantity
C) Fixed Cost + Variable Cost
D) Change in Total Cost / Change in Quantity

4. Total Cost (TC) is the market value of what a firm uses in production.

A) Outputs
B) Profits
C) Inputs
D) Revenue

5. Which type of cost requires a direct outlay of money by the firm?

A) Implicit cost
B) Opportunity cost
C) Economic cost
D) Explicit cost

6. The opportunity cost of the owner's time is an example of which type of cost?

A) Explicit cost
B) Fixed cost
C) Variable cost
D) Implicit cost

7. How do economists measure economic profit?

A) Total revenue minus only explicit costs

B) Total revenue minus total cost, including implicit costs

C) Total revenue minus fixed costs

D) Total revenue minus variable costs

8. Why is accounting profit typically higher than economic profit?

A) It includes implicit costs

B) It ignores implicit costs

C) It includes all opportunity costs

D) It is always higher by definition

9. Total Fixed Cost (TFC) remains constant at all levels of output in the short-run.

A) True

B) False

C) Sometimes true

D) Only at zero output

10. Total Variable Cost (TVC) changes with the level of output.

A) True

B) False

C) Only when output is zero

D) Only when output increases

11. What is the relationship between Total Cost (TC), Total Fixed Cost (TFC), and Total Variable Cost (TVC)?

A) TC = TFC - TVC

B) TC = TVC - TFC

C) TC = TFC + TVC

D) TC = TFC * TVC

12. What does AFC stand for in cost calculations?

A) Average Variable Cost

B) Average Total Cost

C) Average Fixed Cost

D) Additional Fixed Cost

13. Marginal Cost (MC) is the change in total cost divided by the change in what?

A) Average cost

B) Fixed cost

C) Output (production)

D) Variable cost

14. When does marginal cost rise as output increases?

A) When there is increasing marginal product
B) When there is diminishing marginal product
C) When average cost is falling
D) When total cost is constant

15. Why is it important for a producer to 'think at the margin'?

A) To determine the maximum possible revenue
B) To find the minimum possible cost
C) To make decisions about producing more or less to increase profit
D) To calculate total fixed costs

16. If the marginal cost of producing an additional unit is less than the revenue from selling it, what should the producer do to increase profit?

A) Produce less
B) Produce more
C) Stop production
D) Lower the price

17. When marginal cost is less than average total cost, what happens to average total cost?

A) It rises
B) It falls
C) It stays the same
D) It becomes zero

18. When marginal cost is greater than average total cost, what happens to average total cost?

A) It rises
B) It falls
C) It stays the same
D) It becomes negative

19. At what point does the marginal-cost curve cross the average-total-cost curve?

A) The maximum point of average total cost
B) The minimum point of average total cost
C) The point where average total cost is zero
D) The point where marginal cost is zero

20. What is the definition of efficient scale?

A) The quantity that maximizes total revenue
B) The quantity that minimizes total cost
C) The quantity that minimizes average total cost
D) The quantity where marginal cost equals average total cost

21. The average-total-cost curve is typically shaped like a:

A) Straight line
B) Inverted U
C) U
D) Bell curve

22. At very low levels of output, why is average total cost often high?

A) Because variable costs are very high
B) Because fixed costs are spread over only a few units
C) Because marginal cost is very low
D) Because total revenue is low