

Costs and Output Decisions in Production

Economics · Practice Test · 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