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## Chapter-05

### COST

1.If an industry is characterised by economies of scale then-

- (A) Barriers to entry are not very large
- (B) Long run unit costs of production decreases as the quantity the firm produces increases
- (C) Capital requirement are small due to the efficiency of the large scale operation
- (D) The costs of entry into the market are likely to be substantial

2.Transfer earning or alternative cost is otherwise known as-

- (A) Variable cost
- (B) Implicit cost
- (C) Explicit cost
- (D) Opportunity cost (economic cost)

3.Prime cost is equal to-

- (A) Variable cost plus administrative cost
- (B) Variable cost plus fixed cost
- (C) Variable cost only
- (D) Fixed cost only

4. When average cost production (AC) falls, marginal cost of production must be-

- (A) Rising
- (B) Falling
- (C) Greater than the average cost
- (D) Less than the average cost

5.The 'Break-even' point is where-

- (A) Marginal revenue equals marginal cost
- (B) Average revenue equals average cost
- (C) Total revenue equals total cost
- (D) None of the above

6.As output increases, average fixed cost-

- (A) Increases

(B) Falls

(C) Remains constant

(D) First increases, then falls

7. The situation in which total revenue is equal to total cost, is known as-

- (A) Monopolistic competition
- (B) Equilibrium level of output
- (C) Break-even point
- (D) Perfect competition

8. Selling cost means-

- (A) Cost of selling a product
- (B) Cost incurred in transportation
- (C) Cost Incurred in advertisement
- (D) Cost Incurred on factors of production

9.Under full cost pricing price is determined-

- (A) By adding a margin to the average cost
- (B) By comparing marginal cost and marginal revenue
- (C) By adding normal profit to the marginal cost
- (D) By the total cost of production

10. Which of the following is not a fixed cost?

- (A) Salaries of administrative staff
- (B) Rent of factory building
- (C) Property taxes
- (D) Electricity charges

11.The expenses on advertising to called-

- (A) Implicit cost
- (B) Surplus cost
- (C) Fixed cost
- (D) Selling cost

12.The addition to total cost by producing an additional unit of output by a firm is called-

- (A) Variable cost
- (B) Average cost
- (C) Marginal cost
- (D) Opportunity cost





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13. The opportunity cost of a factor of production is-

- (A) What it is earning in its present use
- (B) What it can earn in the long period
- (C) What has to be paid to retain it in its present use
- (D) What it can earn in some other use

14. Consumer gets maximum satisfaction at the point where-

- (A) Marginal Utility = Price
- (B) Marginal Utility > Price
- (C) Marginal Utility < Price
- (D) Marginal Cost = Price

15. Which of the following costs is related to marginal cost?

- (A) Variable Cost
- (B) Implicit Cost
- (C) Prime Cost
- (D) Fixed Cost

16. Average Fixed Cost Curve is-

- (A) Upward sloping
- (B) 'U' shaped
- (C) 'V' shaped
- (D) Downward sloping

17. Selling cost have to be incurred in case of-

- (A) Perfect competition
- (B) Monopoly
- (C) Monopolistic Competition
- (D) None of the given options

18. A beedi making workshop can hire 5 women by paying them Rs. 300 per day. The 6th woman demands Rs. 350 per day. If this woman is hired then all other women must be paid Rs. 350. The marginal resource (labour) cost of the 6th woman is-

- (A) Rs. 600
- (B) Rs. 50
- (C) Rs. 100
- (D) Rs. 300

19. If quantity of good X demanded increases from 2300 to 2700 when price of good Y increases from Rs. 45 to Rs. 55, find Arc Cross elasticity of demand?

- (A) 4
- (B) 1.25
- (C) 0.25
- (D) 0.8

20. If the average total cost are Rs 54, average variable cost is Rs 36 and quantity produced is 2500 units, find the total fixed costs (in Rs) of the firm?

- (A) 30000
- (B) 15000
- (C) 45000
- (D) 60000

21. If the average total cost are Rs 54, total fixed cost is Rs 45000 and quantity produced is 2500 units, find the average variable costs (in Rs) of the firm?

- (A) 24
- (B) 18
- (C) 36
- (D) 60

22. If the breakeven quantity for a factory whose variable cost of manufacturing a cell is Rs. 15 and selling price is Rs. 24. Total quantity produced is 2,400 units, find the fixed cost of the factory?

- (A) Rs. 21600
- (B) Rs. 36000
- (C) Rs. 57600
- (D) Rs. 14400

23. A price floor is \_\_\_\_.

- (A) A maximum legal price
- (B) A minimum legal price
- (C) The price where demand equals supply
- (D) The price where elasticity of demand equals elasticity of supply

24. A hand made paper workshop can hire 8 craftsmen by paying them Rs 400 per person per day. The 9th







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craftsman demands Rs 450 per day. If this craftsman is hired then all other craftsmen must be paid Rs 450. The marginal resource (labour) cost of the 9th craftsman is-

- (A) Rs 50
- (B) Rs 850
- (C) Rs 800
- (D) Rs 100

25. Calculate the accounting profits for a firm, if its economic profits for the year are Rs 60 crores, total implicit costs are Rs 18.5 crores and total explicit costs are Rs 35 crores.

- (A) Rs 113.5 crores
- (B) Rs 43.5 crores
- (C) Rs 76.5 crores
- (D) Rs 78.5 crores

26. If the average total cost are Rs 2400, average variable cost is Rs 1700 and quantity produced is 75 units, find the total fixed costs of the firm?

- (A) Rs 52500
- (B) Rs 127500
- (C) Rs 180000
- (D) Rs 60000

27. If the average total cost are Rs. 1700, total fixed cost is Rs. 52500 and quantity produced is 75 units, find the average variable costs of the firm?

- (A) Rs. 1000
- (B) Rs. 2400
- (C) Rs. 1800
- (D) Rs. 600

28. Calculate the economic profit for a firm if its total revenues are Rs. 180 crores, explicit costs are Rs. 95 crores, and implicit costs are Rs. 25 crores.

- (A) Rs. 110 crores
- (B) Rs. 300 crores
- (C) Rs. 60 crores
- (D) Rs. 250 crores

29. If the break even quantity for a factory whose variable cost of manufacturing a tubelight is Rs. 35 per unit and selling price is Rs. 50 per unit. Total quantity produced is 600 units, find the fixed cost of the factory?

- (A) Rs. 30000
- (B) Rs. 21000
- (C) Rs. 51000
- (D) Rs. 9000

30. For each perfectly competitive firm in the long run

- (A) Price = marginal costs = average variable costs
- (B) Price = average profit
- (C) Price = marginal costs = minimum average total costs
- (D) Price = minimum average variable costs

31. A ceramic pottery unit hires 8 craftsmen by paying each of them Rs 900 per day. The 9th craftsman demands Rs 950 per day. If this craftsman is hired then all other craftsmen must be paid Rs 950. The marginal resource (labour) cost of the 9th craftsman is

- (A) Rs 1530
- (B) Rs 1050
- (C) Rs 50
- (D) Rs 1350

32. If for a perfectly competitive firm, price is Rs. 60, output is 300 units, average variable costs are Rs. 18, and average total costs are Rs. 36. The firm's profits are equal to-

- (A) Rs. 5400
- (B) Rs. 3600
- (C) Rs. 7200
- (D) Rs. 1800

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

- (A) Real cost
- (B) Production cost
- (C) Physical cost
- (D) Opportunity cost





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34. In the short run, when the output of a firm increases, its average fixed cost-

- (A) Remains constant
- (B) Decreases
- (C) Increases
- (D) First decreases and then rises

35. Payment given to others by firms for using their goods and services are called-

- (A) Actual cost
- (B) Economic cost
- (C) Explicit
- (D) Implicit cost

36. The additional cost to total cost by producing an additional unit of output by a firm is called-

- (A) Average cost
- (B) Marginal Cost
- (C) Total Cost
- (D) Variable Cost

37. The non-expenditure costs which arise when producing firm itself and supplies contain factors of production are-

- (A) Explicit Cost
- (B) Original Cost
- (C) Implicit Cost
- (D) Replacement Cost

38. Explicit + Implicit cost =

- (A) Economic cost
- (B) Social cost
- (C) Personal cost
- (D) Accounting cost

39. In the long-run the fixed costs become-

- (A) Money costs
- (B) Real costs
- (C) Opportunity costs
- (D) Variable costs

40. Marginal Cost equals-

- (A) Total cost divided by quantity
- (B) The change in total cost divided by the change in quantity
- (C) Total cost minus total benefit for the last unit Produced
- (D) Total cost divided by total benefit for the last unit produced

41. The expenses on advertising is called-

- (A) Implicit cost
- (B) Surplus cost
- (C) Fixed cost
- (D) Selling cost

42. Which of the following cost curve is never 'U' shaped?

- (A) Marginal cost curve
- (B) Average variable cost curve
- (C) Average fixed cost curve
- (D) Average cost curve

43. Those payments which the firms make to outsiders for their goods and services are called-

- (A) Real costs
- (B) Economic costs
- (C) Explicit costs
- (D) Implicit costs

44. Cost of production of the producer is given by-

- (A) Sum of wages paid to labourers
- (B) Sum of wages and interest paid on capital
- (C) Sum of wages, interest, rent and supernormal profit
- (D) Sum of wages, interest, rent and normal profit

45. Opportunity cost of production of a commodity is-

- (A) The cost that the firm could have incurred when a different technique was adopted
- (B) The cost that the firm could have incurred under a different method of production
- (C) The actual cost incurred
- (D) The next best alternative output







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46. When Average Cost Production (ACP) falls, marginal cost of production must be-

- (A) Rising
- (B) Falling
- (C) Greater than the average cost
- (D) Less than the average cost

47. Prime cost is equal to-

- (A) Variable cost plus administrative cost
- (B) Variable cost plus fixed costs
- (C) Variable cost only
- (D) Fixed cost only

48. An expenditure that has been made and cannot be recovered is called-

- (A) Variable cost
- (B) Opportunity cost
- (C) Sunk cost
- (D) Operational cost

49. What is selling cost?

- (A) Cost incurred on transportation of commodities to market
- (B) Cost incurred on promoting the sale of the product
- (C) Cost incurred on commission and salaries personnel
- (D) Cost incurred on advertisement

50. Marginal cost is the-

- (A) Cost of producing a unit of output
- (B) Cost of producing an extra unit of output
- (C) Cost of producing the total output
- (D) Cost of producing a given level of output

51. The fixed cost on such factors of production which are neither hired nor brought by the firm is called-

- (A) Social cost
- (B) Opportunity cost
- (C) Economic cost
- (D) Surcharged cost

52. Transfer earning or alternative cost is otherwise known as-

- (A) Variable cost
- (B) Implicit cost
- (C) Explicit cost
- (D) Opportunity cost (Economic cost)

53. Economic rent refers to-

- (A) Payment made for the use of labour
- (B) Payment made for the use of capital
- (C) Payment made for the use of organisation
- (D) Payment made for the use of land

54. Total fixed cost curve is-

- (A) Vertical
- (B) Horizontal
- (C) Positively sloping
- (D) Negatively sloping

55. Which of the following are not fixed costs?

- (A) Rent on land
- (B) Municipal taxes
- (C) Wages paid to workers
- (D) Insurance charges

56. Fixed cost is known as-

- (A) Special cost
- (B) Direct cost
- (C) Prime cost
- (D) Overhead cost

57. Fixed costs are also known as-

- (A) Supplementary Costs
- (B) Overhead Costs
- (C) Indirect Costs
- (D) All of these

58. Average fixed cost is indicated by-

- (A) A rectangular hyperbola
- (B) A straight line parallel to X-axis
- (C) A straight line parallel to Y-axis
- (D) A U-shaped curve





59. The short run average cost curve is \_\_\_\_ shaped.

- (A) U
- (B) V
- (C) X
- (D) W

