



ECONOMICS

BOOKS - RADHA BHUGANA

ECONOMICS (HINGLISH)

PRODUCER'S EQUILIBRIUM

Example

1. Using marginal cost and marginal revenue approach, find out the level of output at which

producer will be in equilibrium. Give reasons for your answer.

<i>Output (Units)</i>	1	2	3	4	5	6
<i>Average Revenue (₹)</i>	20	20	20	20	20	20
<i>Total Cost (₹)</i>	22	42	60	76	96	120



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2. From the following table find out the level of output at which the producer will be in equilibrium (use marginal cost and marginal revenue approach). Give reasons for your

answer.

<i>Output (units)</i>	1	2	3	4	5
<i>Total Revenue (₹)</i>	16	30	42	52	60
<i>Total Cost (₹)</i>	14	27	39	49	61



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3. From the following data find out the level of output that will give the producer maximum profit (Use marginal cost and marginal revenue approach). Give reasons for your answer.

<i>Output (units)</i>	1	2	3	4	5
<i>Total Cost (₹)</i>	9	17	24	29	36
<i>Total Revenue (₹)</i>	11	20	27	32	35



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4. From the following schedule find out the level of output at which the producer is in equilibrium. Give reasons for your answer.

<i>Output</i>	1	2	3	4	5	6	7
<i>Price (₹)</i>	24	24	24	24	24	24	24
<i>TC (₹)</i>	26	50	72	92	115	139	165



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5. Find the profit maximizing output level from the following :

Quantity Sold (Units)	7	8	9	10
Price (₹)	10	9	8	7
Average Total Cost (₹)	6	5	6	7



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6. The following table shows the total revenue and total cost schedules of a competitive firm. Calculate the profit at each output level. Determine also the market price of the good.

Qty. Sold	0	1	2	3	4	5	6	7
TR (₹)	0	5	10	15	20	25	30	35
TC (₹)	5	7	10	12	15	23	33	40
Profit (₹)	-	-	-	-	-	-	-	-



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7. The following table shows the total cost schedule of a competitive firm. It is given that the price of the good is Rs. 10. Calculate the profit at each output level. Find the profit maximizing level of output.

Qty.	0	1	2	3	4	5	6	7	8	9	10
TC (₹)	5	15	22	27	31	38	49	63	81	101	123



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8. From the following table find out the level of output at which the producer is in equilibrium. Give reasons for your answer.

<i>Output</i>	1	2	3	4	5	6
<i>Price (₹)</i>	12	12	12	12	12	12
<i>TC (₹)</i>	14	26	35	52	64	70



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9. On the basis of the information given below, determine the level of output at which the producer will be in equilibrium. Use the marginal cost and marginal revenue approach.

Give reasons for your answer.

<i>Output</i>	1	2	3	4	5	6	7
<i>AR (₹)</i>	7	7	7	7	7	7	7
<i>TC (₹)</i>	8	15	22	28	33	40	48



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10. The following table shows the total revenue and total cost schedules of a competitive firm. Calculate the profit at each level of output. Find the profit maximizing

level of output.

Output (Units)	Total Revenue (₹)	Total Cost (₹)
1	10	8
2	20	12
3	30	15
4	40	18
5	50	36



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11. Find out the equilibrium output level from the following data. Show the result graphically.

Price (₹ per unit)	Output (Units)	TR (₹)	TC (₹)	MR (₹)	MC (₹)	Profits (₹)
8	1	8	6	8	6	2
8	2	16	14	8	8	2
8	3	24	20	8	6	4
8	4	32	28	8	8	4
8	5	40	38	8	10	2
8	6	48	50	8	12	-2





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12. Find out the maximum profit position of a producer by MR - MC approach on the basis of the following data.

<i>Output (Units)</i>	<i>TR (₹)</i>	<i>TC (₹)</i>
1	10	4
2	19	9
3	27	15
4	34	22
5	40	30



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Let Us Recapitulate

1. Given below is the cost schedule of a product produced by a firm. The market price per unit of product at all levels of output is Rs. 12. Using marginal cost and marginal revenue approach, find out the level of equilibrium output. Give reasons for your answer:

<i>Output (Units)</i>	1	2	3	4	5	6
<i>Average cost (₹)</i>	12	11	10	10	10.4	11



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2. From the following information about a firm, find the firm's equilibrium output in terms of marginal cost and marginal revenue. Give reasons. Also find profit at this output.

Output (units)	1	2	3	4	5
TR (₹)	6	12	18	24	30
TC (₹)	7	13	17	23	31



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3. From the following total cost and total revenue schedule of a firm. Find out the level of output using marginal cost and marginal

revenue approach , at which at firm would be in equilibrium . Give reasons for your answer.

Output (Units)	1	2	3	4	5
Total Revenue (₹)	10	18	24	28	30
Total Cost (₹)	8	15	21	25	33



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4. Find out the maximum profit position of producer by comparing TC and TR on the basis of the following data. Also verify using MR and MC approach.

<i>Output (in Units)</i>	1	2	3	4	5
AR (₹)	10	9	8	7	6
AC (₹)	10	6	6	7	8



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MULTIPLE CHOICE QUESTIONS

1. Producer's equilibrium is determined where

A. $MR > MC$

B. $MR < MC$

C. $MR = MC$

D. all of these.

Answer: C



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2. A firm earns normal profit when

A. $AR = AC$

B. $AR > AC$

C. $AR < AC$

D. none of these.

Answer: A



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3. In the long run, equilibrium price is equal to

A. AR

B. AC

C. MR

D. none of these.

Answer: B



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4. At the point of equilibrium MC should be

A. rising

B. falling

C. constant

D. all of these.

Answer: A



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5. Producer's equilibrium is determined where difference between TR and TC is

A. constant

B. minimum

C. maximum

D. none of these.

Answer: C



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6. A firm earns super normal (abnormal) profits

when :

A. $AR = AC$

B. $AC > AR$

C. $AR > AC$

D. none of these.

Answer: C



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7. Find equilibrium for a producer if :

<i>Qty. Sold</i>	0	1	2	3	4	5	6	7
<i>TR (₹)</i>	0	5	10	15	20	25	30	35
<i>TC (₹)</i>	5	7	10	12	15	23	33	40

A. 2 units

B. 5 units

C. 4 units

D. 3 units

Answer: B



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8. Equilibrium for a firm is determined when it

:

A. earns maximum revenue

B. maximises the difference between TR
and TC

C. maximises its cost

D. None of these.

Answer: B



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OBJECTIVE TYPE QUESTIONS

1. Who is a producer?



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2. What is the objective of a producer?



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3. Define profits.



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4. What is profit maximisation ?



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5. When is a producer said to be in equilibrium ?



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6. What is meant by equilibrium output of a producer ?



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7. What is the general profit maximising condition for a producer (MR and MC approach) ?



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8. Explain the condition of a firm based on MC and MR.



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CONCEPTUAL QUESTIONS

1. What are the conditions of producer's equilibrium ?



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Higher Order Thinking Skills

1. What are the conditions of producer's equilibrium under perfect competition and monopoly?



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2. "MC should be rising at the point of producer's equilibrium". Comment.



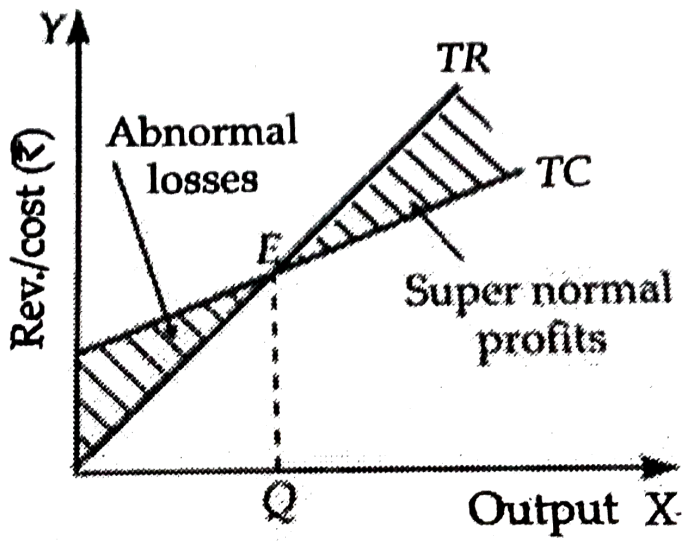
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3. If MC is more than MR at a particular level of output, then how will a producer react to maximize the profits ?



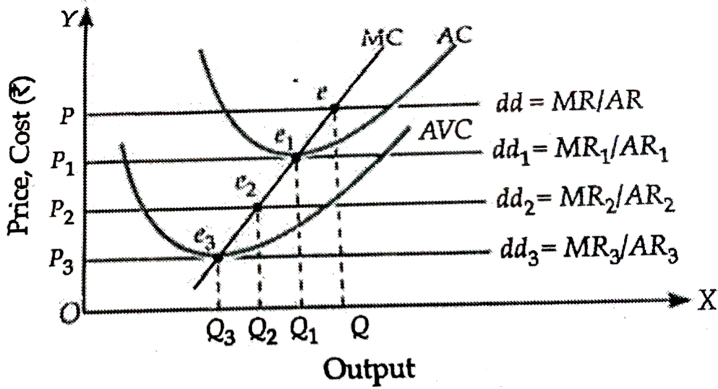
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4. Identify break-even point from the following diagram :



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5. Discuss short run equilibrium in diagram.



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Value Based Questions

1. A firm has been operating in the market for a long time. Its profits have been falling considerably. The producer is not able to decide whether to continue with the operation or exit the industry. As a student of economics, suggest him the way.



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2. A television making industry is making super normal profits. Many firms have entered the

industry as free entry is permitted in this form of market. A new firm sees potential in this industry and decides to invest in it. Would this be a rational decision? What would you guide to the firm?



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Guidelines to NCERT Questions

1. What conditions must hold if a profit maximising firm produces positive output in a

competitive market ?



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2. Can there be a positive level of output that a profit maximising firm produces in a perfectly competitive market at which market price is not equal to marginal cost ? Explain.



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3. Will a profit maximising firm in a competitive market ever produce a positive level of output in the range where MC is falling ? Explain.



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4. Will a profit maximising firm in a competitive market produce a positive level of output in the short run if market price is less than the minimum of AVC ? Give an explanation.





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5. Will a profit maximising firm in a competitive market produce a positive level of output in the long run if market price is less than the minimum AC ? Give an explanation.



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6. The following table shows the total revenue and total cost schedules of a competitive firm. Calculate the profit at each output level.

Determine also the market price of the good.

<i>Qty. Sold</i>	0	1	2	3	4	5	6	7
<i>TR (₹)</i>	0	5	10	15	20	25	30	35
<i>TC (₹)</i>	5	7	10	12	15	23	33	40
<i>Profit (₹)</i>	-	-	-	-	-	-	-	-



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7. The following table shows the total cost schedule of a competitive firm. It is given that the price of the good is Rs. 10. Calculate the profit at each output level. Find the profit

maximising level of output.

Quantity sold	0	1	2	3	4	5	6	7	8	9	10
TC (in ₹)	5	15	22	27	31	38	49	63	81	101	123



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VERY SHORT ANSWER TYPE QUESTIONS

1. Give the meaning of producer's equilibrium.



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2. What is break even point ?



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3. Define profits.



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4. At a particular level of output, a producer finds that $MC > MR$. What will a producer do to maximise his profit ?



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5. What do you mean by profit maximisation of a producer ?



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6. Is it enough to say that profit is maximised when $MC = MR$?



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7. What is meant by equilibrium output of a producer ?



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8. When does a producer earn maximum profits ?



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9. What is the general profit maximising condition of a producer from TR and TC curves ?



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10. State the two conditions of producer's equilibrium under perfect competition ?

Or

What are the conditions of profit maximisation for a competitive firm ?





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11. At a particular level of output, a producer finds that $MC > MR$. What will a producer do to maximise his profit ?



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SHORT ANSWER TYPE QUESTIONS

1. Define producer's equilibrium. State its conditions.

Or

Explain the meaning and conditions of producer's equilibrium. (Using a numerical example)



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2. Explain producer's equilibrium in terms of total cost and total revenue.



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3. From the following table, find out the level of output at which the producer will be in equilibrium.

<i>Output (Units)</i>	1	2	3	4	5
<i>MR (₹)</i>	8	8	8	8	8
<i>MC (₹)</i>	10	8	7	8	9



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4. Why can a firm not earn abnormal profits under perfect competition in the long run. Explain.



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5. Explain the conditions of equilibrium of a firm based on MC and MR.

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LONG ANSWER TYPE QUESTIONS

1. What is meant by producer equilibrium ?
Explain the conditions of achieving it.

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2. Explain the short run equilibrium conditions in a perfect competitive market.

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3. Explain the producer's equilibrium conditions in an imperfect market.

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4. How does long run equilibrium determined in a perfect competitive market ? Explain.



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5. What is producer's equilibrium ? Explain the conditions of producer's equilibrium through the marginal cost and marginal revenue approach. Use diagram.



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6. What is meant by producer's equilibrium ?

Explain the conditions of producer's equilibrium through the 'total revenue and total cost' approach. Use diagram.



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7. Explain why will a producer not be in equilibrium if the conditions of equilibrium are not met.



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UNSOLVED NUMERICALS

1. Given below is a cost and revenue schedule of a producer. At what level of output is the producer in equilibrium ? Give reasons for your answer.

<i>Output (Units)</i>	1	2	3	4	5	6	7
<i>Price (₹)</i>	10	10	10	10	10	10	10
<i>Total Cost (₹)</i>	13	22	30	38	47	57	71



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2. The price of commodity X is Rs.20 per unit and it remains constant. Given below is the cost schedule of one of its producers. Find out the level of output at which this producer is in equilibrium. Give reasons for your answer.

<i>Output (Units)</i>	1	2	3	4	5	6	7
<i>Total Cost (₹)</i>	26	45	60	76	94	114	142



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3. Find out the level of output at which the producer is in equilibrium.

<i>Qty</i>	1	2	3	4	5	6	7
<i>Price (₹)</i>	24	24	24	24	24	24	24
<i>TC (₹)</i>	26	50	72	92	115	139	165



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4. On the basis of the information given below, determine the level of output at which the producer will be in equilibrium. Use the cost-marginal revenue approach. Give reasons for your answer.

<i>Output (Units)</i>	1	2	3	4	5	6
<i>Average Revenue (₹)</i>	7	7	7	7	7	7
<i>Total cost (₹)</i>	8	15	21	26	33	41



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5. From the following information about a firm, find the firm's equilibrium output in terms of marginal cost and marginal revenue. Give reasons. Also find profit at this output.

<i>Output (Units)</i>	1	2	3	4	5
<i>Total Revenue (₹)</i>	7	14	21	28	35
<i>Total cost (₹)</i>	8	15	21	28	36



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6. From the following information about a firm, find the firm's equilibrium output in terms of marginal cost and marginal revenue.

Give reasons. Also find profit at this output.

<i>Output (Units)</i>	1	2	3	4	5
<i>Total Revenue (₹)</i>	8	16	24	32	40
<i>Total cost (₹)</i>	10	18	23	31	41



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