ECONOMICS

BOOKS - GOYAL BROTHERS PRAKASHAN ECONOMICS (HINGLISH)

COST

Problems

1. Total fixed cost is Rs. 90. Complete the following table.

Output (Units)	MC (₹)	TC (₹)	ATC (₹)
1	10		
2	20		
3	15		

2. Given the total fixed cost is ₹60, complete the following table,

Output (Units)	AVC (₹)	TC (₹)	MC (₹)
1	20	—	—
2	15	—	—
3	20	—	—

3. Assuming that total fixed cost is rs 24, complete the following table:

Output (Units)	Average Total Cost (₹)	Total Variable Cost (₹)	Marginal Cost (₹)
1	50		
2	40		
3	45		

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4. The following table shows the total cost of production of a firm at different levels of output. Find out the average variable cost and the marginal cost at each level of output?

Output (Units)	0	1	2	3
Total cost (₹)	60	100	130	150

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5. The following table shows the marginal cost at different level of output by a firm . Its total fixed cost is rs 120, Find its average total cost and average variable cost at each level of output:

Output (Units)	1	2	3
Marginal cost (₹)	40	30	26

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6. The following table shows the cost function of a firm. Calculate its average variable cost and marginal cost as each level of output.

Output (Units)	0	1	2	3
Total cost (₹)	30	45	56	69

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7. From the data diven below, calculate the (i) average fixed cost, (ii) average variable cost and (iii) marginal cost.

Output (Units)	0	1	2	3	4	5
Total cost (₹)	30	90	110	120	140	180

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8. Following information is given about a firm:

Output (Units)	0	1	2	3	4	5	6
Total cost (₹)	400	550	660	790	940	1150	1460

From this information find out:

(i) the average fixed cost of producing 4 units.

(ii) the average variable cost of producing 5 units.

(iii) the least average cost level of output.

(iv) the marginal cost of producing the 3rd unit.

(v) the total variable cost of producing 6 units.

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Multiple Choice

1. Cost in Economics as compared to cost in business accounts is:

A. Same

B. Narrower

C. Wider

D. Not comparable

Answer: C

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2. Long run cost consists of:

A. Variable cost

B. fixed cost

C. Partly variable and partly fixed cost

D. Mostly variable cost.

Answer: A

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3. Which of the following is not economics cost:

A. Payment of factory rent

B. Purchase of machine

C. Normal profit

D. Payment of interest

Answer: C

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4. The typical behaviour of TVC in the short run is that it:

A. Increase at increasing rate throghtout

B. Increases at decreasing rate throughout

C. Increases at decreasing rate initially and then at increasing rate.

D. Increases at increasing rate initially and then at decreasing rate.

Answer: C

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5. As output is increased the difference between TVC and TC:

A. Increases

B. Remains unchanged

C. Decreases

D. Initially increases, then decreases.

Answer: B

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6. As output is increased AVC:

A. Goes farther away from ATC

B. Comes nearer to ATC

C. Remains equidistant from ATC

D. Initially a, then b.

Answer: B

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7. AVC of one unit of output is rs 10 while that of 2 units is rs 9. MC of one unit is:

A. rs8

B. rs9

C. rs10

D. rs19

Answer: C

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8. When ATC is falling. MC:

A. Must be falling

B. Must be rising

C. Initially falling, then rising

D. Has no specific relationship.

Answer: C

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Short Answer

1. What is fixed cost? What happens to AFC as output is increased?

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2. Define variable cost. How does AVC behave as output increases?

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3. Distinguish between short run and long run in terms of cost.

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4. Draw TFC and TVC curves.

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5. Draw ATC and AVC curves on a single diagram.

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6. Draw ATC,AVC and MC curves on a single diagram.

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7. Define marginal cost and give an illustration.

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Short Answer Ii

1. Explain the concept of economic cost.

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2. Distinguish between fixed and variable costs. Give at least one example of each.

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3. Giving examples explain what is implicit cost?

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4. Explain the behaviour of TVC.

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5. Draw TFC,TVC andTC curves on a single diagram.

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6. Draw ATC,AVC and MC curves on a single diagram.

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7. Explain the relation between MC and ATC.

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8. Explain the relation between MC and AVC.

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9. Explain the realtion between AVC and ATC curves.

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Numerical Que

1. Calculate TFC,TVC,AFC,AVC and ATC from the following:

Output (Units)	Total Cost (₹)
0	60
1	100
2	120
3	150
4	200
5	280

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2. Assuming that TFC is $rs12$, calculate TC,TVC,ATC and AVC from the following:

Output (Units)	Marginal Cost (₹)
1	20
2	10
3	15
4	25

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3. A firm produces 100 units good X. Actual money expenditure incurred on producing this good is rs 1500. the owner supplies inputs worth rs500 for which he does not receive any payment. The economic cost turned out to b rs2100. how do you account for the difference?

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4. Calculate economic cost.

	(Rs)
(i) Purchase of raw materials	200
(ii) Payments of wages and salaries	500
(iii) Payment of rent	50
(iv) Donations	100
(v) Estimated value of services of owner	300
(vi) Expected minimum profit	40
(vii) Estimated super normal profit	240

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5. Identify fixed costs and variable costs:

Salary of permanent staff	Interest payment
Wages to daily wage workers	Expenditure on raw materials
Depreciation	License fee
Excise duty	Sales tax

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Some Imp Que

1. Define fixed cost.

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2. Define marginal cost.

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3. Define variable cost.

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4. Why does average fixed cost fall as output rises?

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5. What is the relationship between marginal cost and average variable cost?

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6. From the following table, calculate average variable cost of each given level of output:

Output (units)	1	2	3	4
MC (₹)	40	30	35	39

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7. From the following table, calculate average variable cost of each given level of output:

Output (units)	1	2	3	4
Marginal cost (₹)	80	70	72	78

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8. Distinguish between fixed cost and variable costs. Give two examples of each.

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9. Given below is the cost schedule of a firm. Its total fixed cost is rs100. calculate average variable cost and marginal cost at each given level of output.

Output (units)	1	2	3	4
Total cost (₹)	350	450	610	820

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10. Given below is the cost schedule of a firm. Its fixed cost is rs 50. Calculate average total cost and marginal cost at each given level of output.

Output (units)	1	2	3	4
Total Variable Cost (₹)	80	150	235	330

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11. Calculate total variable cost and marginal cost at each given level of output from the following table.

Output (units)	0	1	2	3	4
Total Cost (₹)	40	60	78	97	124

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12. Complete the following table:

Output (units)	Total cost (₹)	Average variable cost (₹)	Marginal cost (₹)
0	80	—	—
1	180	—	—
2	270	—	—
3	350	—	—
4	440	—	—

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13. The total fixed cost of a firm is rs12. Given below is its marginal cost schedule. Calculate total cost and average variable cost for each given level of output.

Output (units)	1	2	3	4	5	6
Marginal cost (₹)	9	7	2	4	8	12

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14. Calculate TVC and TC from the following cost schedule of a firm whose fixed costs are rs10.

Output (units)	1	2	3	4
Marginal cost (₹)	6	5	4	6

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15. Calculate total cost and average variable cost of a firm at each given level of output from its cost schedule given

below:

Output (units)	1	2	3	4	5	6
AFC (₹)	60	30	20	15	12	10
MC (₹)	32	30	28	30	35	43

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16. Why does the difference between average total cost and average variable cost decrease with increase in the level of output? Explain.

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17. Giving reasons state when the following statemetns are true or fasle:

(i) The difference between ATC and AVC decreases with decrease in the level of output.

(ii) When marginal cost rises, average cost will also rise.

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18. An individual is both the owner and the manager of a shop taken on rent. Identify implicit cost and explicit cost from this information.

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19. A producer borrows money and opens a shop. The shop premises is owned by him. Identify the implicit and explicit costs from this information . Explain.

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20. A farmer takes a form on rent and carries farming with the help of family members. Identify explicit costs from this information. Explain.

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21. With increase the level of output. AFC goes on falling. True or false? Explain.

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22. What is the relation between Average Variable Cost and Average Total Cost, if Total Fixed cost and Average Total cost. If Total Fixed Cost is zero?

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23. A producer borrows money to run a business but manages the business himself. Identify implicit costs.

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24. What is the relation between marginal cost and average variable cost when marginal cost is rising and average varibale cost is falling?

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