ECONOMICS

BOOKS - SANDEEP GARG ECONOMICS (HINGLISH)

PRODUCER'S EQUILIBRIUM

Example

1. On the basis of the information given below , determine the level of output at which the

producer will be in equilibrium . Use the mariginal cost- marginal revenue approach. Give reasons for your answer.

Output (Units)	1	2	3	4	5	6	7
Average Revenue (₹)	7	7	7	7	7	7	7
Total Cost (₹)	8	15	22	28	33	40	48

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2. On the basis of following data , determine producer's equilibrium through marginal cost- marginal revenue approach. Give reasons for

your answer.

Output (Units)	1	2	3	4	5	6	7
Price (₹)	24	24	24	24	24	24	24
Total Cost (₹)	26	50	72	92	115	139	165

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3. Determine producer's equilibrim from the following data through MC-MR approach. Give reasons for your answer.

Output (Units)	1	2	3	4	5
AR (₹)	12	11	10	9	8
AC (₹)	4	5	6	7	9

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4. From the following information about a firm, find the firms 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
Total Revenue or TR (₹)	7	14	21	28	35
Total Cost or TC (₹)	8	15	21	28	36

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HIGHER ORDER THINKING SKILLS

1. Why should MC curve cut MR curve from below to achieve producer's equilibrium ?

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2. If MC is more than MR at a particular level output then how will a producer react to maximise the profits?

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3. A table showing TC and TR of a firm is given . Calculate MC and MR find out the equilibrium level of output.

level of output.

Output	1	2	3	4	5	6	7	8	9	10
TC	45	80	95	105	135	175	225	285	360	440
TR	40	80	120	160	200	240	280	320	360	400

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4. The equality of marginal cost and marginal revenue is a condition necessary for equilibrium , but it is not by itselt sufficient to

assure the attainment of producer's equilibrium . Comment.

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5. Why is the equality between marginal cost and marginal revenue necessary for a firm to be in equilibrium ? Is it sufficient to ensure equilibrium ? Explain.

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

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7. Elaborate the implication of the conditions of equilibrium of a firm.

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TRUE AND FALSE

1. At the state of producer's equilibrium marginal cost of the firm should be rising.

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2. To maximize the profits of a firm , the only condition needed is equality between marginal cost and marginal revenue.

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3. If marginal cost is equal to marginal revenue at two output levels, then any one of the output level can be taken as state of producer's equilibrium.

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4. Excess of marginal revenue over marginal cost is always better than equality between the two in order to achieve the equilibrium for a producer.

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

competitive market at which market price is not equal to marginal cost ? Give an explanation.

3. Will a profit-maximising firm in a competitive market ever produce a positive level of output in the renge where the marginal cost is falling ? Give an explanation.

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

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

also the market price of the good.

Quantity sold (units)	0	1	2	3	4	5	6	7
TR (in ₹)	0	5	10	15	20	25	30	35
TC (in ₹)	5	7	10	12	15	23	33	40
Profit (₹)	—	—	—	—	—	—	—	—

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6. 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

Revision

1. Producer's Equilibrium under MR-MC approach is achieved when :

   A. MR=MC

   B. $MC > MR$ after the equality between MR and MC

   C. Either (a) or (b)

D. Both (a) and (b)

Answer: D

2. _____ refers to a situation when a firm has no intention expand or contract the output.

A. Producer's Equilibrium

B. Market Equilibrium

C. Consumer's Equilibrium

D. None of these

Answer: A

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3. Excess of receipts from sale of goods over expenditure incurred on producing them is termed as:

A. Average Revenue

B. Revenue

C. Profits

D. Marginal Revenue

Answer: C

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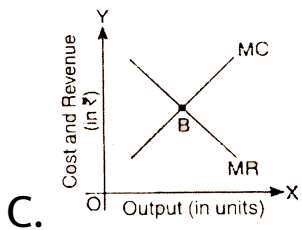
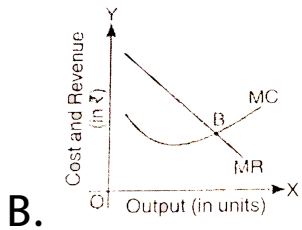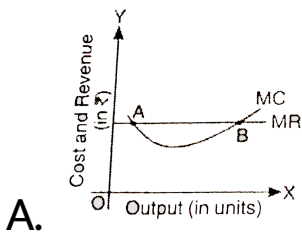**4.** Producer is not at equailibrium when

$MC > MR$ bacause :

A. Profits can be increased by producing

   more

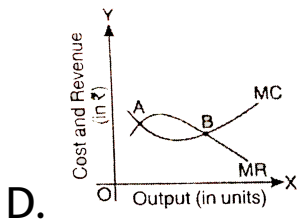B. Benefit is less than cost

C. Both (a) and (b)

D. None of these

Answer: B

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5. The following diagram correctly depicts the producer's equilibrium in case of constant prices:

A.

B.

C.

D.

Answer: A

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6. In the following schedule , producer's equilibrium is at _____

Output (Units)	1	2	3	4	5
MR (₹)	10	10	10	10	10
MC (₹)	12	10	8	10	15

A. 2 units

B. 4 units

C. 3 units

D. 5 units

Answer: B

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7. If MR is more than MC at a particular level of

output , then producer will:

A. Reduce production

B. Increase production
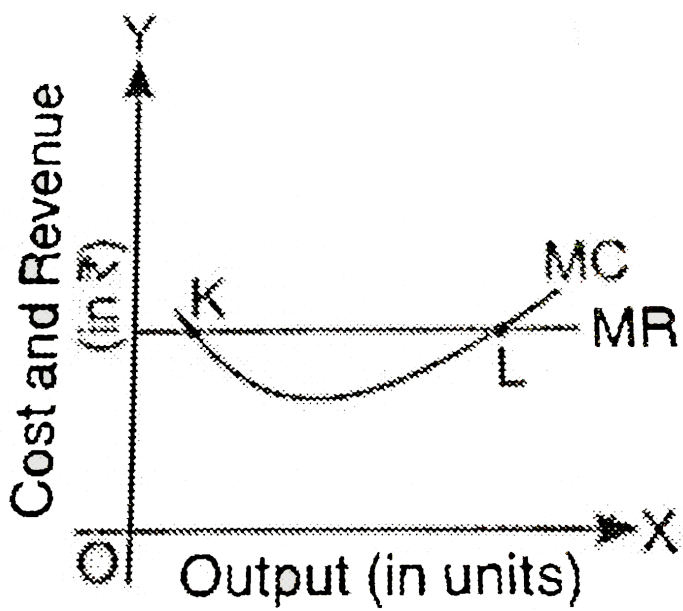
C. Keep the production at current level

D. None of these

Answer: B

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8. In the following diagram , producer's equilibrium is achieved at poin _____

A. K

B. L

C. Both (a) and (b)

D. Neither (a) nor (b)

Answer: B

9. Producer's equilibrium refers to stage of that output level when :

A. Firm earns maximum profit

B. Firm bears minimum losses

C. Firm has no inclination to expand contract the output

D. All of these

Answer: D

10. In case of perfect competition a firm is in equilibrium when:

    A. MC=MR

    B. MC cuts MR from below

    C. MC is rising when it cuts MR

    D. All of these

Answer: D

11. The profit of a firm diminishes when _____ exceeds _____ :

A. Marginal Revenue , Marginal Cost

B. Marginal Cost, Marginal Revenue

C. Marginal Revenue , Average Cost

D. Average Revenue, Average Cost

Answer: B

12. If Marginal Cost =MC and Marginal Revenue =MR , then for achieving equilibrium output:

A. MC Curve should cut MR curve from above

B. MC Curve should cut MR Curve from below

C. MC Curve should not cut MR Curve at all

D. MC Curve should be tangent to MR Curve

Answer: B

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13. When price falls with rise in output , then Producer's Equilibrium is achieved at:

Y axis: Revenue and Cost (in ₹)

MC

MR

P F

E

O

M

Output (in units)

X
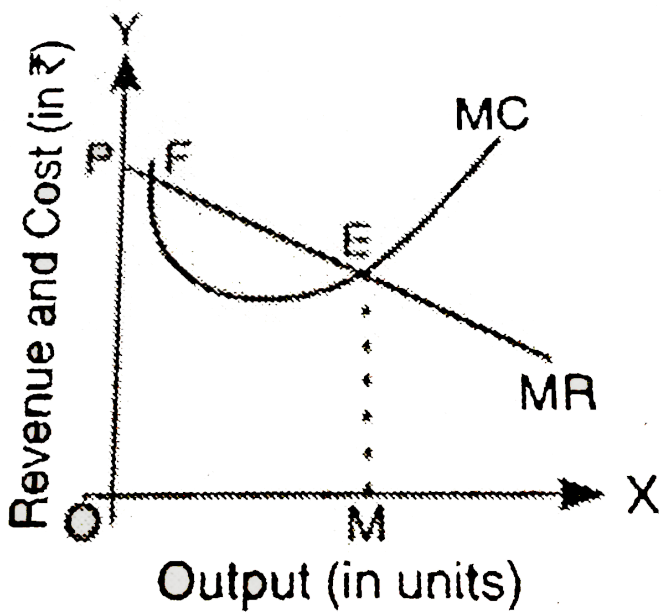
A. Point E

B. Point F

C. both (a) and (b)

D. Neither (a) nor (b)

Answer: A

Very Short Answer Type

1. What is meant by profit ?

2. What are the two methods for determination of producer's equilibrium?

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

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

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5. Is it enough to say that profit is maximized when MC=MR?

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6. At a certain level of output , the marginal cost of a firm is above its marginal revenue. Can this be its equilibrium output ?

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7. What is Producer's Equilibrium ?

Unsolved Practicals

1. From the following schedule , find out the level of output at which the producer is in equilibrium ,using marginal cost and marginal revenue approach. Give reasons for your answer.

Price per unit (₹)	8	7	6	5	4
Output (Units)	1	2	3	4	5
Total Cost (₹)	6	11	15	20	26

2. The TR and TC values of a firm are given in the following schedule. Calculate MR and MC. Also determine the level of output . At which producer's equilibrium is achieved?

Output (units)	1	2	3	4	5	6	7
TR (₹)	20	40	60	80	100	120	140
TC (₹)	30	55	78	98	120	150	190

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

equilibrium . Give reasons for your answer.

Output (Units)	Marginal Revenue (₹)	Marginal Cost (₹)
1	8	10
2	8	8
3	8	7
4	8	8
5	8	9

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4. Give reason identify the equilibrium level of output and find and profit at this output using Marginal cost and marginal Revenue' approach from the following: ,

Output (Units)	Total Revenue (₹)	Total Cost (₹)
1	8	8
2	15	13
3	21	19
4	26	27
5	30	36

5. Giving reasons identify the equilibrium level of output and find profit at this output using Marginal Cost and Marginal Revenue' approach from the following:

Output (Units)	Total Cost (₹)	Total Revenue (₹)
1	7	7
2	13	14
3	20	21
4	28	28
5	37	35

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.

Output (Units)	Total Revenue (₹)	Total Cost (₹)
1	6	7
2	12	13
3	18	17
4	24	23
5	30	31

7. Giving reasons find out the level of output at which producer will be in equilibrium .(Use

marginal cost and ,marginal revenue approach).

Output (Units)	Total Revenue (₹)	Total Cost (₹)
1	18	21
2	36	39
3	54	54
4	72	72
5	90	93

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8. A producer can sell any quantity of a commodity at a given price of Rs. 10 per unit. His cost schedule is given below:

Output (units)	1	2	3	4	5	6
Total cost (₹)	12	22	31	38	48	60

How many units should he produce to get maximum profit ? Explain.

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9. From the following about a producer find out the level of output at which he will be in equilibrium.

Output (units)	1	2	3	4	5
Price (per unit ₹)	10	9	8	7	6
Marginal Cost (₹)	10	6	3	4	7

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

Output (Units)	1	2	3	4	5	6
Average Cost (₹)	12	11	10	10	10.4	11

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11. From the following total cost and total revenue schedule of a firm. Find out the level of output suing 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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12. Identify the equilibrium level of output using marginal cost and marginal revenue

approach. Give reasons for your answer.

Price (₹)	Output (units)	Total Cost (₹)	Marginal Cost (₹)
10	1	10	10
10	2	19	9
10	3	26	7
10	4	36	10
10	5	48	12