Multiple choice questions

Try the multiple choice questions below to test your knowledge of this chapter. Once you have completed the test, click on 'Submit Answers for Grading' to get your results.

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This activity contains 20 questions.

1. Profit-maximising firms want to maximize the difference between:

- ○ total revenue and total cost.
- ○ total revenue and marginal cost.
- ○ marginal revenue and marginal cost.
- ○ marginal revenue and average cost.
- ○ total revenue and marginal cost.
- ○ marginal revenue and average cost.
- ○ marginal revenue and marginal cost.
- ○ total revenue and total cost.

2. Which statement is FALSE?

- ○ Fixed costs are the difference between total costs and total variable costs.
- ○ Fixed costs do not depend on the firm's level of output.
- ○ Fixed costs are zero if the firm is producing nothing.
- ○ There are no fixed costs in the long run.
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- Fixed costs do not depend on the firm's level of output.
- Fixed costs are the difference between total costs and total variable costs.
- There are no fixed costs in the long run.

3. Which of the following is most likely to be a variable cost for a firm?

- The interest payments made on loans.
- The payroll taxes that are paid on employee wages.
- The monthly rent on office space that it leased for a year.
- The franchiser's fee that a restaurant must pay to the national restaurant chain.
- The franchiser's fee that a restaurant must pay to the national restaurant chain.
- The payroll taxes that are paid on employee wages.
- The monthly rent on office space that it leased for a year.
- The interest payments made on loans.

4. The costs that depend on output in the short run are:

- total variable costs only.
- total fixed cost only.
- both total variable costs and total costs.
- total costs only.
- total costs only.
- both total variable costs and total costs.
- total variable costs only.
- total fixed cost only.

The short run, as economists use the phrase, is characterised

5.

by:

- at least one fixed factor of production and firms neither leaving nor entering the industry.
- a period where the law of diminishing returns does not hold.
- no variable inputs - that is, all of the factors of production are fixed.
- all inputs being variable.

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- at least one fixed factor of production and firms neither leaving nor entering the industry.
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- all inputs being variable.

6.

Diminishing marginal returns implies:

- decreasing marginal costs.
- increasing marginal costs.
- decreasing average variable costs.
- decreasing average fixed costs.

- decreasing marginal costs.
- decreasing average fixed costs.
- increasing marginal costs.
- decreasing average variable costs.

7.

Which of the following is a correct statement about the relationship between average product (AP) and marginal product (MP)?

- If AP is at a maximum, then MP is also.
- If TP is declining, then AP is negative.
- If AP = MP, then total product is at a maximum.
- If AP exceeds MP, then AP is falling.

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- If AP = MP, then total product is at a maximum.

8. If the total product of two workers is 80 and the total product of 3 workers is 90, then the average product of the third worker is _____ and the marginal product of the third worker is _____.

- 10; 3.33
- 160; 270
- 30; 10
- 10; 30
- 160; 270
- 30; 10
- 10; 30
- 10; 3.33

9. Engineers for The All-Terrain Bike Company have determined that a 15% increase in all inputs will cause a 15% increase in output. Assuming that input prices remain constant, you correctly deduce that such a change will cause _____ as output increases.

- average costs to remain constant
- average costs to increase
- average costs to decrease
- marginal costs to increase
- average costs to increase
- average costs to decrease
- average costs to remain constant
- marginal costs to increase

10. Suppose Handel's Ice Cream experiences economies of scale up to a certain point and diseconomies of scale beyond that point. Its long-run average cost curve is most likely to be:

- upward sloping to the right.
- downward sloping to the right.
- horizontal.
- U-shaped.

- horizontal.
- downward sloping to the right.
- U-shaped.
- upward sloping to the right.

11. Most empirical studies show that firms' cost curves:

- are U-shaped.
- slope up to the right.
- slope down to the right.
- slope down to the right and then level off.

- slope down to the right.
- are U-shaped.
- slope down to the right and then level off.
- slope up to the right.

12. A graph showing all the combinations of capital and labour that can be used to produce a given amount of output is:

- an indifference curve.
- a production function.
- an isoquant.
- an isocost line.

- an isoquant.
- an isocost line.
- an indifference curve.
- a production function.

13. The rate at which a firm can substitute capital for labour and hold output constant is the:

- marginal rate of substitution.
- marginal rate of production.
- marginal rate of factor substitution.
- law of diminishing marginal returns.

- law of diminishing marginal returns.
- marginal rate of substitution.

- marginal rate of production.
- marginal rate of factor substitution.

14. A graph showing all the combinations of capital and labour available for a given total cost is the:

- isoquant.
- expenditure set.
- budget constraint.
- isocost line.

- expenditure set.
- isocost line.
- budget constraint.
- isoquant.

15. The formula for average fixed costs is:

- TFC - q
- TFC/q
- q/TFC
- Dq/DTFC

- TFC - q
- TFC/q
- q/TFC
- Dq/DTFC

16. The formula for average variable cost (AVC) is:

- q/TVC
- Dq/DTVC
- TVC/q
- DTVC/Dq

- Dq/DTVC
- DTVC/Dq
- q/TVC
- TVC/q

17. Marginal revenue is:

- the ratio of total revenue to quantity.
- the difference between total revenue and total costs.
- the added revenue that a firm takes in when it increases output by one additional unit.
- the additional profit the firm earns when it sells an additional unit of output.
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- the additional profit the firm earns when it sells an additional unit of output.
- the difference between total revenue and total costs.
- the ratio of total revenue to quantity.

18. A firm in a perfectly competitive industry is producing 50 units, its profit-maximising quantity. Industry price is £2 and total fixed costs and total variable costs are £25 and £40, respectively. The firm's economic profit is:

- £60.
- £15.
- £35.
- £30.
- £35.
- £60.
- £30.
- £15.

19. Maximum profit can be shown on a diagram using:

- the AC and AR curves.
- the MR and MC curves.
- the AC and MC curves.
- the MR and AR curves.

- the AC and AR curves.
- the AC and MC curves.
- the MR and AR curves.
- the MR and MC curves.

20. A firm will shut down in the short run if:

- variable costs exceed revenues.
- it is suffering a loss.
- total costs exceed revenues.
- fixed costs exceed revenues.

- fixed costs exceed revenues.
- total costs exceed revenues.
- it is suffering a loss.
- variable costs exceed revenues.

Clear Answers / Start Over Submit Answers for Grading

Answer choices in this exercise appear in a different order each time the page is loaded.