			Year								
	Part A	Topic	2018	2017	2016	2015	2014	2013	2012	2011	2010
MCQ	Q3	Short Run Production Law of Marginal Returns Total, Average and Marginal Production Short Run costs Long Run Production Economies and Diseconomies of scale Returns to scale Perfect competition market structure Monopoly market structure Monopolistic market structure Oligopoly market structure	5 MCQs	5 MCQs	4 MCQs	4 MCQs	9 MCQs	6 MCQs	3 MCQs	4 MCQs	4 MCQs

Past Paper Question 2018 -2004

1. Short run production

1. In the production process, a short run is a period of time in which (A/L 2015)
   I. The firm is not able to hire more workers.
   II. The amount of output produced is fixed.
   III. There is a shortage of most inputs.
   IV. All inputs are fixed but output can be varied.
   V. The quantities of some inputs are fixed and others can be varied.

2. Which one of the following factors of production is likely to be fixed in the short run? (A/L 2005)
   I. The location of the firm
   II. The number of employee hours
   III. The amount of electricity (unit) consumed
   IV. The amount of stationery used
   V. The amount of raw materials used

2. Total Production, Marginal Production and Average Production

3. When marginal product of the short-run production function of a firm is Zero, (A/L 2014)
   I. The total product is maximized
   II. The average product is maximized
   III. The average cost is minimized

IV. The marginal cost is minimized
V. The marginal product equals average product.

4. When the marginal product of labour is equal to average product of labour. (A/L 2013)
   I. Marginal product of labour is at its maximum.
   II. Marginal cost of production is at its minimum.
   III. Marginal cost is equal to minimum average variable cost.
   IV. Average total cost is at its minimum.
   V. Total product of labour is at its maximum.

3. <u>Law of Diminishing Returns</u>

5. The "Law of Diminishing Returns" states' (A/L 2017)
   I. As the size of a plant increases, its marginal product eventually decreases.
   II. As the size of a plant increases, its average cost eventually decreases.
   III. As a firm uses more of a variable input, given the quantity of fixed inputs, its marginal product eventually decreases.
   IV. As a firm uses more of a variable input, given the quantity of fixed inputs, its average cost eventually decreases.
   V. As a firm uses more of a fixed input, given the quantity of variable inputs, its marginal product eventually decreases.

6. Which of the following statements best describes the operation of the law of diminishing returns? (A/L 2011)
   I. As the consumption of a good increases. Total satisfaction rises but at a diminishing rate.
   II. As more of a variable factor is added to a fixed factor. Total product rises but at a diminishing rate.
   III. As all factors are increased in proportion. Total product rises but at a diminishing rate.
   IV. As more of a variable factor is added to a fixed factor, the marginal cost of production diminishes.
   V. As all factors are increased in proportion, the marginal cost of production increases.

4. <u>Marginal cost</u>

7. Assume that a firm uses only one variable input in its short run production process. If the firm is experiencing diminishing returns, which of the following is true as more of the variable input is used? (A/L 2018)
   I. Marginal cost will decrease at a constant rate.
   II. Marginal cost will decrease at a diminishing rate.
   III. Marginal cost will increase.
   IV. Marginal product will increase at a constant rate.
   V. Marginal product will increase at a diminishing rate

8. To increase its labour force from 100 to 101 workers, a firm has to increase its daily wage rate from Rs. 600 to 650. Under this situation, the marginal cost of labour per day is (A/L 2013)
   I. Rs. 50.
   II. Rs. 650.
   III. Rs. 5,650.
   IV. Rs. 60,000.
   V. Rs. 65,650.

5. Total Cost and Average Total Cost

9. The shape of Total Cost Curve of a firm in the short run is determined by (A/L 2014)
   I. The behavior of average fixed cost
   II. The way of change in technology.
   III. The behavior of average total cost
   IV. The behavior of total variable cost
   V. The behavior of returns to scale.

10. The short run marginal cost of producing good X is indicated by the schedule below. (A/L 2011)

Unit of X	1	2	3	4	5	6	7
Marginal cost (Rs.)	30	20	16	24	40	56	64

Given that total fixed cost is Rs. 30, at what level of output is short run average total cost (ATC) lowest?

   I. 2 units
   II. 3 units
   III. 4 units
   IV. 5 Units
   V. 6 units

6. Total Variable Cost and Average Variable Cost

11. When a firm is producing zero output, its total costs are Rs.300. When the firm is producing 5 units of output, its total costs are Rs. 630. What is the Average Variable Cost of producing 5 units of output? (A/L 2018)
   I. Rs.60
   II. Rs.66
   III. Rs. 122
   IV. Rs.126
   V. Rs.330

12. In the short run, if a firm produces nothing, which of the following costs will be Zero? (A/L 2016)
   I. Opportunity cost
   II. Total variable cost

III. Total fixed cost
IV. Average total cost
V. Total cost

13. In the short run, even if average revenue is less than average cost, it will pay a firm to continue in business so long as an average revenue is greater than. (A/L 2010)
    I. Average fixed cost.
    II. Marginal cost.
    III. Average variable cost.
    IV. Variable cost plus fixed cost.
    V. Marginal revenue.

7. Total Fixed Cost and Average Fixed Cost

14. The vertical distance between the total cost (TC) and total variable cost (TVC) curves is (A/L 2015)
    I. Decreasing as output decreases.
    II. Increasing as output decreases.
    III. Equal to marginal cost (MC).
    IV. Equal to total fixed cost (TFC).
    V. Equal to average fixed cost (AFC).

15. Even if the average fixed cost of a firm continuously decreases with the increase in output, it never becomes zero because, (A/L 2014)
    I. The total cost does not change
    II. There is a variable cost
    III. There is an average cost
    IV. There is a marginal cost
    V. There is a fixed cost

16. The table below shows the total and marginal costs of a firm. (A/L 2009)

Output (units)	Total Cost (Rs.)	Marginal Cost (Rs.)
1	200	20
2	215	15
3	225	10
4	240	15
5	260	20
6	285	25

What is the average fixed cost of producing 5 units?
I. Rs. 20
II. Rs. 36

III. Rs. 52
IV. Rs. 180
V. Rs. 200

8. Total Cost, Total Variable Cost and Total Fixed Cost

17. A firm employs variable amounts of labour to a fixed amount of capital to produce good X. If the daily wage paid to labour increases, how does this affect the firm's costs? (A/L 2012)

	Total variable cost	Total fixed cost	Total cost
I.	Decrease	No change	Decrease
II.	Decrease	Decrease	Decrease
III.	Increase	Decrease	No change
IV.	Increase	No change	Increase
V.	Increase	Increase	increase

9. Marginal Cost, Average Cost and Total Cost

18. In the short run, suppose a firm is producing at its minimum average cost per unit of output, what effect will a small reduction in output have on the firm's marginal, average and total cost? (A/L 2010)

	Marginal Cost	Average Cost	Total Cost
I.	Fall	Fall	Fall
II.	Fall	Rise	Fall
III.	Rise	Fall	Fall
IV.	Rise	Fall	Rise
V.	Rise	Rise	Fall

10. Economic profit Vs. Accounting profit

19. At the current level of output of a perfectly competitive firm, the marginal cost is Rs. 80. The average variable cost is Rs. 50. The average fixed cost is Rs.30 and the product price is Rs. 80. Which of the following statements is true for this firm? (A/L 2018)
    I. Economic profit is zero because marginal revenue equals marginal cost.
    II. Economic profit is negative because total revenue is less than total cost.
    III. Economic profit is positive because total revenue is greater than total cost.
    IV. Economic profit is negative because price is greater than average variable cost.
    V. Economic profit is zero because price equals average total cost.

20. If there are implicit costs of production (A/L 2017)
    I. Accounting profit will exceed economic profit.
    II. Economic profit will always be Zero.
    III. Economic profit will exceed accounting profit.

IV. Accounting profit will always be zero.
V. Economic profit and accounting profit will be equal.

21. A farmer (bee keeper) sells 10 bottles of honey each month at a price of Rs. 400 per bottle. He pays Rs. 200 each month for bottles and other materials and Rs. 1,000 for labour. He uses his own land, which he could rent for Rs. 500 per month, and he could have earned Rs. 1,300 per month if he worked elsewhere instead of working in his farm, what are his economic profits per month? (A/L 2006)
    I. Rs. 4,000
    II. Rs. 2,800
    III. Rs. 2,300
    IV. Rs. 1,300
    V. Rs. 1,000

11. Economic costs Vs. Accounting costs

22. An economist calculates that a firm has incurred the following production costs over the course of a year. (A/L 2013)

Item	***Cost (Rs. Thousands)***
Wages and salaries	150
Opportunity cost of owner's time	40
Cost of materials	80
Rent	30
Marketing fees	20
Interest on bank loans	25
Interest forgone on finance provided by owner	15

By how much does total cost as defined by an economist exceed the total cost as defined by an accountant?

I. Rs. 30,500
II. Rs. 55,000
III. Rs. 85,000
IV. Rs. 305,000
V. Rs. 360, 000

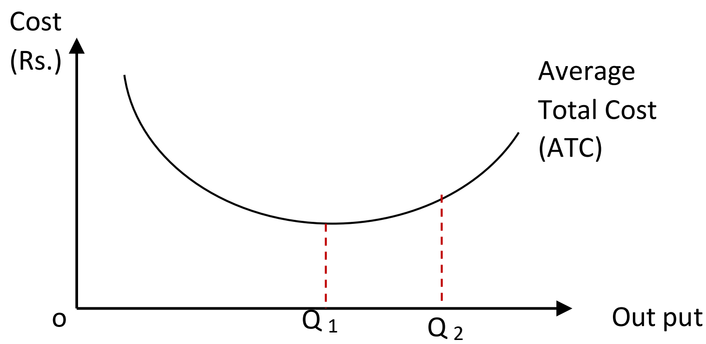
12. Other concepts related to the Short Run production period

23. Firm A reduces its workers from 250 to 200 and as a result its output decreases from 5,000 to 4,800 units per day. Firm B increases its workers from 800 to 1,000 and as a result its output increases from 2,000 to 2,200 units per day, what happens to labour productivity of the workers in the two firms? (A/L 2013)

	Labour Productivity of Firm A	Labour Productivity of Firm B
I.	Falls	Rises
II.	Rises	Falls
III.	Rises	Rises
IV.	Falls	Falls
V.	Rises	Remains unchanged

13. Economies and Diseconomies of scale

24. The diagram shows how a firm's average total cost changes as it employs of all its factors of production, including capital and labour. (A/L 2010)



As the firm increases its output from OQ_1 to OQ_2, the diagram illustrates

I. The benefits of monopoly power.
II. The benefits of increased specialization
III. Diseconomies of scale.
IV. Increasing returns to scale.
V. Increased productive efficiency.

25. Economies of scale will (A/L 2008)

I. Always lead to an increase in abnormal profits.
II. Cause average costs to increase.
III. Benefit multinational companies.
IV. Cause a fall in long run average costs.
V. Lead to a proportionate increase in output.

14. Law of returns to scale

26. When a firm increases all its inputs by 50%, its output increases by 40%. This situation is illustrated as the Law of (A/L 2016)

I. Diminishing returns
II. Decreasing returns to scale.
III. Variable proportions.

IV. Increasing returns to scale.
V. Marginal returns.

27. The meaning of the "Law of return to scale" is (A/L 2014)
    I. The way of change in total output of the firm to a change in prices of inputs
    II. The way of change in total output of the firm when variable inputs are changed while holding at least one input constant.
    III. The way of change in total output of the firm to a change in technology.
    IV. The way of change in total output of the firm to a change in the quality of inputs.
    V. The way of change in total output of the firm when all inputs are changed.

15. Market structures

28. The table below displays some of the assumptions of perfect competition and monopolistic competition. Which combination of assumptions is consistent with these markets? (A/L 2017)

	Perfect Competition	***Monopolistic Competition***
I.	Homogeneous product	Barriers to entry and exit
II.	Differentiated products	Homogeneous product
III.	Large number of sellers	Small number of sellers
IV.	Barriers to entry and exit	Perfect information
V.	Large number of sellers	Differentiated products

29. The profit maximizing output of a firm operating in a competitive market is determined at a point where (A/L 2016)
    I. Marginal cost is decreasing
    II. Marginal cost is increasing
    III. Marginal revenue is increasing.
    IV. Marginal cost is at its minimum level.
    V. Marginal cost is below the marginal revenue.

30. The condition that should be satisfied at the equilibrium of a firm is, (A/L 2014)
    I. Marginal revenue equals marginal cost when marginal cost is increasing
    II. Marginal revenue marginal cost when marginal cost is decreasing
    III. Marginal revenue equals marginal cost at the minimum point of marginal cost
    IV. Marginal revenue equals marginal cost when average cost is increasing
    V. Marginal revenue equals marginal cost when average cost is decreasing.

31. An industry consists of a large number of firms, all of which produce an identical product. What could explain why the demand curve facing each individual firm is downward sloping? (A/L 2013)
    I. All firms act as price takers.

II. Freedom of exit and entry.
III. Perfect mobility of resources.
IV. A limit on the amount consumers have available to spend.
V. Imperfect knowledge about the market on the part of consumers.

32. Firm X sells its product in a perfectly competitive market. Firm Y operates in an oligopolistic market and Firm Z is a pure monopoly, which of the following descriptions of their products is correct? (A/L 2010)

	Product of Firm X	Product of Firm Y	Product of Firm Z
I.	Differentiated	Differentiated	Unique
II.	Unique	Homogeneous	Differentiated
III.	Homogeneous	Differentiated	Unique
IV.	Unique	Unique	Differentiated
V.	Homogeneous	Unique	Differentiated

33. (A/L 2008)

Output (Units)	Total Cost (Rs.)	Total Revenue (Rs.)
1	8	30
2	18	50
3	30	66
4	46	80
5	65	90
6	90	96

The data given in the above Table relate to a firm operating under conditions of

I. Perfect competition and constant marginal costs.
II. Imperfect competition and falling marginal costs.
III. Perfect competition and rising marginal costs.
IV. Imperfect competition and rising marginal costs
V. Perfect competition and falling marginal costs.

34. A firm will always earn abnormal profit at an output level at which (A/L 2004)
I. Marginal revenue is equal to marginal cost
II. Total cost is greater than total revenue
III. Average revenue is greater than average cost
IV. Average variable cost is less than average
V. Average cost is falling

16. Perfectly competitive market

35. Which of the following are characteristics of a perfectly competitive market? (A/L 2018)
A New firms can enter the market easily.

B There is no product differentiation.
C The market demand curve is perfectly elastic.
D The supply curve of an individual firm in the market is perfectly elastic.

I. A and B only
II. A and C only
III. A, B and C only
IV. A, B and D only
V. B and C only

36. Which of the following is **not** usually a characteristic of a perfectly competitive market? (A/L 2017)
   I. No individual firm has any significant amount of market power.
   II. The market demand curve is perfectly elastic.
   III. Any individual firm can increase its production and sales without affecting the price of the good.
   IV. The existing firms cannot bar the entry of new firms.
   V. There are large number of buyers and sellers in the market.

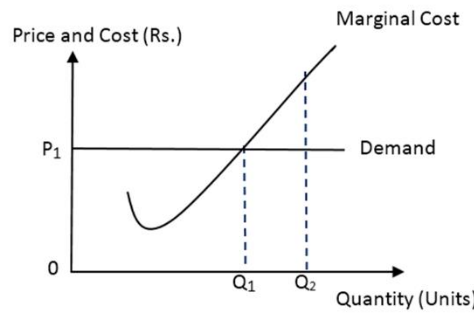
37. A firm in a perfectly competitive industry is facing the following situation in the short run. (A/L 2017)

The current level of output	=	500 units
Market price	=	Rs. 6 per unit
Total Cost	=	Rs. 5000
Total fixed Cost	=	Rs. 1000
Marginal Cost	=	Rs. 6

The firm whose goal is profit maximization should.
   I. Reduce output but keep producing
   II. Increase its selling price.
   III. Leave output unchanged.
   IV. Reduce output to zero.
   V. Increase output but keep its price constant.

38. Given the cost and demand schedules of a competitive firm depicted in the diagram given below, if the firm increased output from Q_1 to Q_2. it would (A/L 2015)

   I. Earn a normal profit.
   II. Experience an increase in profit.
   III. Experience a decline in profits.
   IV. Increase revenues but not costs.
   V. Increase costs but no revenues.



39. The demand curve of perfectly competitive firm is perfectly elastic because, (A/L 2014)
    I. Homogeneous goods are sold in the market
    II. The supplier is a price maker
    III. The supplier is a price taker
    IV. The required information is not available for the supplier
    V. Advertising is absent

40. A perfectly competitive firm is producing 200 bags of rice per week, which it sells at Rs. 250 per bag. The table shows the firm's costs. (A/L 2013)

Item	Cost(Rs)
Total fixed cost	20,000
Total Variable Cost	40,000
Marginal Cost	250

In the short run, what should the firm do to maximize profits or minimize its losses?
    I. Cease production altogether.
    II. Increase its output.
    III. Decrease its output.
    IV. Lower its price.
    V. Maintain its output at present level.

41. Which of the following is true about the marginal revenue of a firm in a perfectly competitive industry? (A/L 2012)
    I. If is constant
    II. It increases as output sold increase
    III. It decreases as output sold increases
    IV. It increases at first, then decreases
    V. It decreases at first, then increases.

42. Which one of the following is **not** consistent with perfect competition? (A/L 2011)
    I. A large number of producers and consumers
    II. Advertising by individual firms
    III. One market price only
    IV. A homogeneous product
    V. A perfectly elastic demand curve for each firm

43. For a firm in equilibrium in perfect competition, average revenue is, (A/L 2011)
    I. Less than marginal revenue and both are positive.
    II. Equal to marginal revenue and both are Zero.
    III. Equal to marginal revenue and both are positive.
    IV. Greater than marginal revenue which is Zero
    V. Greater than marginal revenue which is positive.

44. A perfectly competitive firm which is producing 200 eggs per week. Sells an egg for Rs. 25. This output of 200 eggs per week incurs the following costs;

Total fixed Cost	=	Rs.	2000
Total variable Cost	=	Rs.	4000
Marginal Cost	=	Rs.	25

In the short run, what should the firm do to maximize its profits or minimize its losses? (A/L 2009)

I. Raise its price
II. Increase Output
III. Decrease out put
IV. Maintain output at its present level
V. Cease production altogether

45. A perfectly competitive firm's perfectly elastic demand curve means that (A/L 2009)
I. It could actually sell an infinite amount of output at the going price.
II. The firm could increase total revenue by increasing the price.
III. As the firm expands the output its marginal revenue will fall.
IV. Total revenue is constant regardless of quantity produced.
V. The product's price will be virtually unaffected at any output levels the firm can reasonably produce.

46. Which of the following features indicates that a firm is operating under conditions of perfect competition? (A/L 2008)
I. The marginal cost curve cuts the average cost curve at its lowest point.
II. The firm does not advertise.
III. Marginal revenue equals average revenue.
IV. The firm always produces at the optimum.
V. Normal profits are being earned.

47. In a perfectly competitive firm, marginal revenue always equals, (A/L 2006)

I. Average total cost.
II. The price of the product.
III. The average fixed cost.
IV. Total revenue.
V. The average variable cost.

48. In perfect competition, the elasticity of demand faced by a single firm is (A/L 2004)
I. Zero, because the firm produces a unique product
II. Zero, because many other firm produce homogeneous products.
III. Infinity, because the firm produces a unique product.

IV. Infinity, because many other firms produce homogeneous products.
V. Varied between zero and infinity, because there are many firms in the industry.

17. <u>Supply curve of the Perfectly competitive market</u>

49. In the price range below minimum average variable cost, a perfectly competitive firm's supply curve is (A/L 2016)
    I. Horizontal at the market price.
    II. Vertical at zero output.
    III. The same as the firm's marginal cost curve,
    IV. The same as the firm's average variable cost curve.
    V. Upward rising with positive output.

50. The short-run supply curve of a firm is, (A/L 2014)
    I. The marginal cost curve above variable cost
    II. The rising part of the average variable cost curve.
    III. The rising part of the marginal cost curve
    IV. The rising part of the average total cost curve
    V. The marginal cost curve above average total cost.

18. <u>Monopoly market</u>

51. A monopoly firm can decide (A/L 2014)
    I. The price of the good only
    II. The price or quantity of the good only
    III. The quantity of the good only
    IV. Both price and quantity of the good.
    V. Bothe production cost and quantity of the good

52. In which of the following market situations is the firm identical with the industry? (A/L 2008)
    I. Monopoly
    II. Oligopoly
    III. Imperfect competition
    IV. Perfect Competition
    V. Monopolistic Competition

19. <u>Monopolistic competitive market</u>

53. Which of the following is not a characteristic of monopolistically competitive market? (A/L 2015)
    I. Relatively easy market entry
    II. Differentiated products.
    III. Substantial product advertising
    IV. A large number of both buyers and sellers.

V. Firms face perfectly elastic demand curves

54. Monopolistic competition is a market structure in which there is (A/L 2012)
    I. Only one firm.
    II. A small number of firms.
    III. A large number of firms producing an identical product.
    IV. A large number of firms producing a differentiated product
    V. No advertising

55. Which of the following is a characteristic of monopolistic competition? (A/L 2009)
    I. There are substantial barriers to entry.
    II. There is product differentiation.
    III. A single firm produces the entire industry output.
    IV. Each firm's demand curve is horizontal at the market price.
    V. Both buyers and sellers have perfect information.

20. Oligopoly market

56. In which one of the following market structures do firms recognize their mutual interdependence? (A/L 2018)
    I. Oligopoly
    II. Monopoly
    III. Perfect competition
    IV. Natural monopoly
    V. Monopolistic competition

57. When there are few large firms selling homogeneous or differentiated products in a market, it is known as (A/L 2014)
    I. A duopoly market
    II. A monopolistic competitive market
    III. A perfectly competitive market
    IV. An oligopolistic market
    V. A monopolistic market

QUESTION NUMBER	ANSWER	QUESTION NUMBER	ANSWER	QUESTION NUMBER	ANSWER
1		20		39	
2		21		40	
3		22		41	
4		23		42	
5		24		43	
6		25		44	
7		26		45	
8		27		46	
9		28		47	
10		29		48	
11		30		49	
12		31		50	
13		32		51	
14		33		52	
15		34		53	
16		35		54	
17		36		55	
18		37		56	
19		38		57	

MOCK Questions

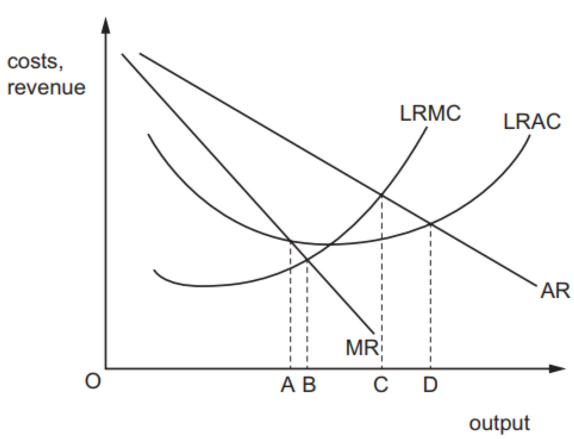
1. In all market structures, what must firms equate to ensure allocative efficiency?
   I. Average cost and average revenue
   II. Average cost and marginal revenue
   III. Marginal cost and average revenue
   IV. Marginal cost and marginal revenue

2. According to oligopoly theory, what is not likely to characterise the behaviour of firms in the industry?
   I. Matching any price cuts made by their rivals
   II. Matching any price rises made by their rivals
   III. Selling a range of similar but differentiated products
   IV. The ability to earn supernormal profit

3. A monopolist chooses an output that maximises profits and makes normal profits. What must be correct at the output chosen?
   I. Average cost equals average revenue.
   II. Average revenue equals marginal revenue.
   III. Marginal cost is at a minimum.
   IV. The monopolist is allocatively efficient.

4. A firm operates in an imperfectly competitive market. The prices of its products are determined by the maximum price each consumer is willing to pay. What describes this pricing method?
   I. Kinked demand curve
   II. Limit pricing
   III. Price discrimination
   IV. Price leadership

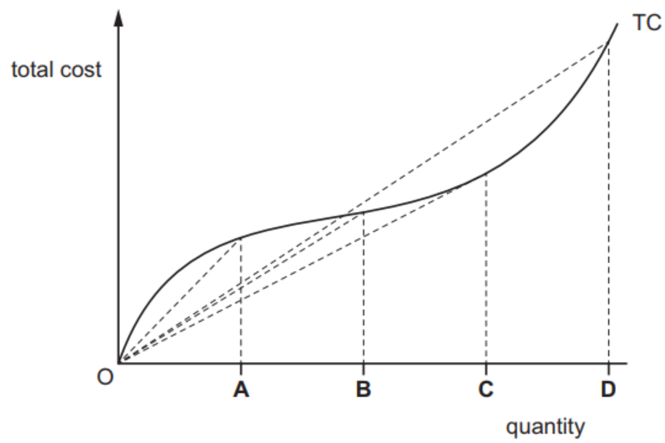
5. The diagram shows a firm's long-run cost and revenue curves.



At which level of output is the firm both allocatively and productively efficient?

I. OA
II. OB
III. OC
IV. OD

6. The diagram shows a firm's total cost curve. At which level of output will the firm's marginal cost be equal to its average cost?

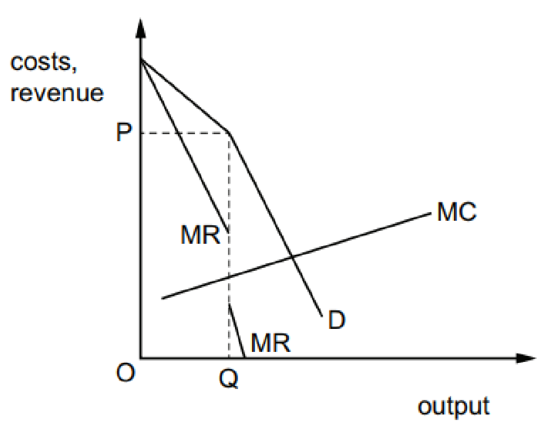


Answer is C

7. A firm changes its objective from maximising profit to producing at the allocatively efficient output. In which market structure must the firm operate for this to cause the least change in economic welfare?

I. Monopolistic competition
II. Monopoly
III. Oligopoly
IV. Perfect competition

8. The diagram shows a firm's cost and revenue curves



Which features are associated with the diagram?

I. Economies of scale and allocative efficiency
II. Interdependence and allocative efficiency
III. Price rigidity and economies of scale
IV. Price rigidity and interdependence

9. In the year ending July 2018, airline fuel prices fell by 20.4% while the price of passenger aircraft increased by around 1.1%. Assuming no other changes in the passenger airline industry, what was the outcome for fixed costs and variable costs?

	Fixed costs	Variable costs
I.	decreased	decreased
II.	decreased	increased
III.	increased	decreased
IV.	increased	increased

10. Firms X, Y and Z are profit maximising private firms.
X operates in a perfectly competitive industry, Y in a monopolistically competitive industry and Z is a single monopolist.
Which statement is correct?

I. Only X satisfies the condition for allocative efficiency.
II. Only X faces no barriers to entry in the long run.
III. Only Y and Z can make a supernormal profit in the long run.
IV. Only Z has a product differentiation

11. What are the correct formulae for calculating average cost (AC) and average revenue (AR)?

	AC	AR
I.	$\frac{TC}{MC}$	$\frac{TR}{MR}$
II.	$\frac{TC}{P}$	$P \times Q$
III.	$\frac{TC}{Q}$	$\frac{P \times Q}{Q}$
IV.	$\frac{TC}{Q}$	$\frac{TR}{P}$

Key
MC = marginal cost
MR = marginal revenue
P = price
Q = quantity
TC = total cost
TR = total revenue

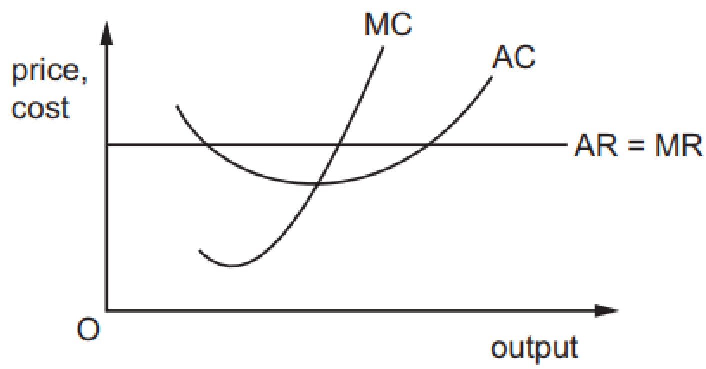
12. A Hawker Centre where there are many outdoor stalls is a popular and cheap place to eat in Singapore. They sell a large variety of food but many sell the same dishes cooked in different ways. The cost of setting up a stall is low and prices charged are very similar.

Of which market structure is this an example?

I. Monopolistic competition
II. Monopoly
III. Oligopoly
IV. Perfect competition

13. Which characteristic of an industry works towards reducing the barriers to entry for new firms?
    I. Significant advertising expenditure by existing firms
    II. Significant economies of scale
    III. The absence of large costs associated with investment in capital assets
    IV. The possession by existing firms of product and process patents

14. The diagram shows the position of a profit-maximising firm in a perfectly competitive industry.



What is the correct analysis of this position?

	profits in short run	number of firms in the industry in the long run
I.	supernormal	decrease
II.	supernormal	increase
III.	normal	remain the same
IV.	subnormal	decrease

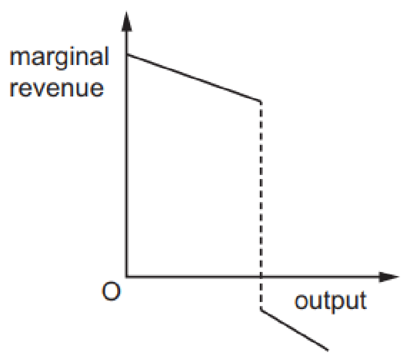
15. When a firm doubles its variable inputs, its fixed inputs are unchanged and output less than doubles. What does this illustrate?
    I. Decreasing average cost
    II. Decreasing marginal cost
    III. Diminishing returns
    IV. Diseconomies of scale

16. To maximise total revenue, up to which point should a monopolist increase output?
    I. Where marginal revenue equals average revenue
    II. Where marginal revenue is maximised
    III. Where marginal revenue is zero
    IV. Where price elasticity of demand is zero

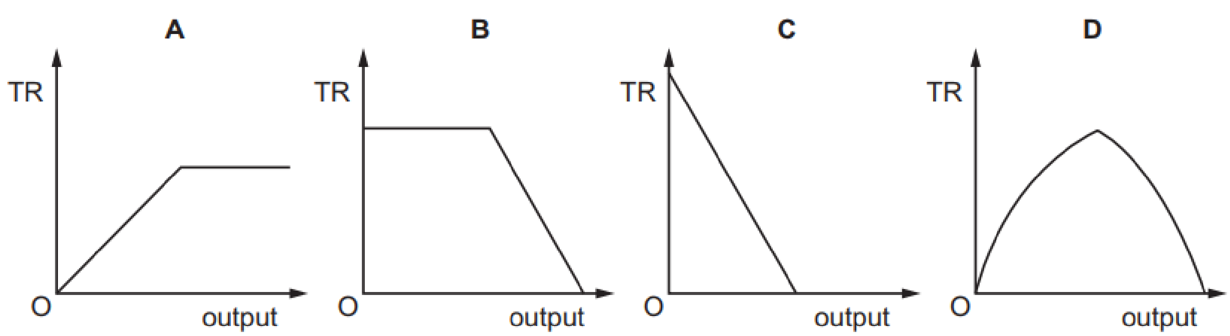
17. A firm is operating in perfect competition. What will be the effect on the firm's revenue if it increases its output by 5%?
    I. Its revenue will be unchanged.
    II. Its revenue will increase by 5%.
    III. Its revenue will increase by less than 5%.
    IV. Its revenue will increase by more than 5%.

18. A firm operates at the maximum point on its average product curve. What necessarily follows?
    I. Average variable cost is at a minimum.
    II. Marginal cost is at a minimum.
    III. Marginal product is at a maximum.
    IV. Total profit is at a maximum.

19. The diagram shows a firm's marginal revenue curve.



Which total revenue curve corresponds to this firm's marginal revenue curve?

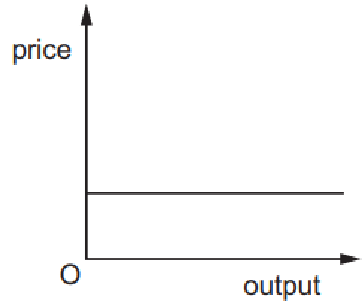


Answer is D

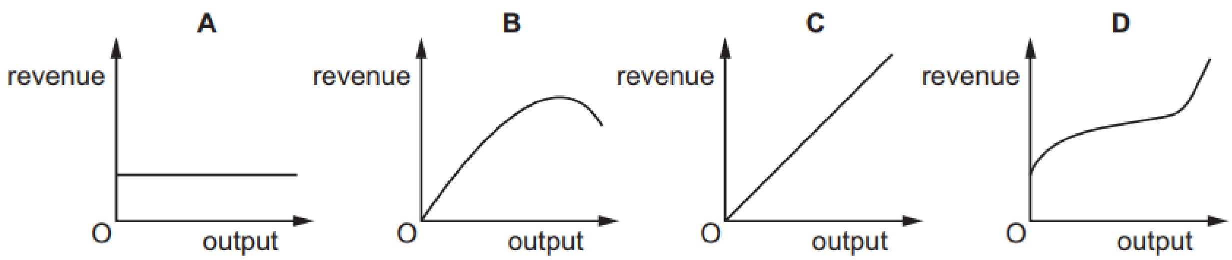
20. Where is the long-run equilibrium output of a perfectly competitive firm?
    I. Where average costs are at a minimum
    II. Where average costs are falling
    III. Where marginal costs are at a minimum

IV. Where marginal costs are falling

21. The diagram shows the demand curve for a firm's product.

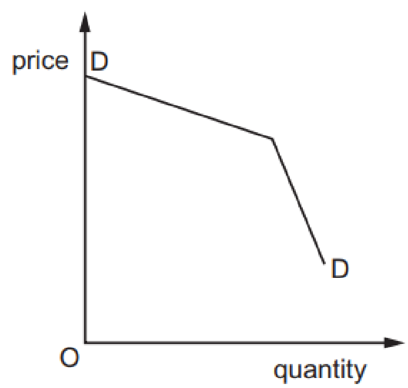


Which diagram shows the shape of the firm's total revenue (TR) curve?



Answer is C

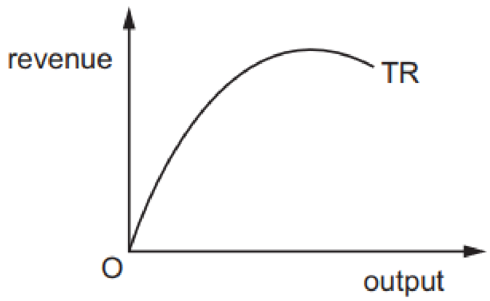
22. Which feature of oligopoly is being assumed when the demand curve for an individual firm is as shown?



I. Price discrimination
II. Price leadership by the dominant firm
III. Interdependence between firms
IV. Collusion between firms

23. What is true about the average fixed costs of a firm?
    I. They fall as output rises at first, but then rise.
    II. They fall continuously as output rises.
    III. They increase continuously as output rises.
    IV. They remain unchanged at all output levels.

24. The diagram shows a firm's total revenue curve.



At the curve's highest point
    I. Marginal revenue is equal to marginal cost.
    II. Average revenue is equal to average cost.
    III. Marginal revenue is equal to average revenue.
    IV. Marginal revenue is zero.

25. Firms in a market advertise their products with different brand names. Some make more profit than others in the short run but all make normal profit in the long run. Which market structure is this?
    I. Perfect competition
    II. Monopolistic competition
    III. Oligopoly
    IV. Monopoly

	Part A	Topic	Year								
			2018	2017	2016	2015	2014	2013	2012	2011	2010
Essay	Q3	Short run Vs. Long run								1	
		TP, MP and AP	1						1		
		Short run costs	1	2	1						
		Diminishing Returns Vs. Returns to Scale	1	1	1			1	1	1	1
		Economic rent, Transfer earning, Producer surplus and Economic profit	1		1						1
		Explicit costs and Implicit costs				1				1	
		Accounting profit Vs. economic profit							1		
		Economies and Diseconomies of scale								1	
		Barriers to entry and exit	1								
		Natural monopoly									1
		Market structures		2	2	3		3	2	1	2

Past Paper Question 2018 -2004

1. Short run production Vs. Long run production

1. Distinguish between the short run and the long run in production. (02 marks) (A/L 2011)

2. Total Production, Marginal Production and Average Production

2. State whether the following statements are true or false and give reasons for your answer. (2 marks) (A/L 2018)
   Total product starts falling when diminishing returns set in.

3. What is meant by short run production function? (02 marks) (A/L 2012)

3. Analysis of short run costs

4. State whether the following statements are true or false and give reasons for your answer. (4 marks) (A/L 2018)
   a) Property taxes, building insurance payments and amortization payments are fixed costs.
   b) If marginal cost is above the average variable cost, marginal cost must be falling.
5. What happens to the difference between average total cost and average variable cost as a firm's output expands in the short run? Explain. (4 marks) (A/L 2017)

6. How would each of the following affect average total cost and average variable cost? (4 marks) (A/L 2017)
   a) A reduction in the price of electricity
   b) A reduction in the wage rate
   c) An increase in the salary of the Chief Executive Officer (CEO)
   d) An increase in the cost of the rent of the firm's buildings

7. Explain the relationship between marginal cost and average total cost. (04 marks) (A/L 2016)

8. Distinguish between the concepts in each of the following pairs. (3 marks) (A/L 2005)
   Fixed costs and variable costs

4. Diminishing Returns Vs. Returns to Scale

9. State whether the following statements are true or false and give reasons for your answer. (2 marks) (A/L 2018)
   Diminishing returns and decreasing returns to scale are different ways of saying the same thing.

10. How does the Law of Diminishing Returns relate to the shape of the firm's short run cost curves? (4 marks) (A/L 2017)

11. What is the difference between diminishing returns and decreasing returns to scale? (04 marks) (A/L 2016)

12. Explain how the law of diminishing returns and the law of returns to scale affect a firm's cost of production. (04 marks) (A/L 2013)

13. What is the law of diminishing returns, and what does it imply about the likely shape of short run cost curves? (04 marks) (A/L 2012)

14. Explain the 'Laws of Diminishing returns. (02 marks) (A/L 2011)

15. Explain the difference between 'diminishing returns' and 'decreasing returns to scale'? (02 marks) (A/L 2010)

16. Explain how the laws of 'diminishing returns' and 'returns to scale' affect a firm's cost of production. (4 marks) (A/L 2006)

5. Economic rent and Transfer earning, Producer surplus and Economic profit

17. Distinguish between economic rent and transfer earning. (4 marks) (A/L 2018)

18. Explain the concepts, producer surplus, economic profit and economic rent. (04 marks) (A/L 2016)

19. What is the difference between 'producer surplus' and 'economic profit'? (02 marks) (A/L 2010)

6. **Explicit costs and Implicit costs**
    20. Distinguish between explicit (direct) costs and implicit (indirect) costs giving examples of each. (4 marks) (A/L 2015)

    21. Explain the difference between explicit and implicit costs giving examples. (04 marks) (A/L 2011)

7. **Accounting profit Vs. economic profit**
    22. How do the concepts of accounting profit and economic profit differ? (04 marks) (A/L 2012)

    23. Explain how economic profit differs from accounting profit. (4 marks) (A/L 2004)

8. **Other concepts**
    24. Why do economists regard normal profit as a cost? (4 marks) (A/L 2015)

    25. Distinguish between a factor market and a product market. (03 marks) (A/L 2008)

    26. Distinguish between the concepts in each of the following pairs. (3 marks) (A/L 2005)
        Normal profit and supernormal profit

9. **Economies and Diseconomies of scale**
    27. What are economies of scale? How do they arise? (06 marks) (A/L 2011)

    28. Define the term 'economies of scale. (02 marks) (A/L 2009)

    29. How do the economies of scale arise? (04 marks) (A/L 2009)

10. **Barriers to entry and exit**
    30. Explain, using two examples, what is meant by 'barriers to entry' to an industry. (4 marks) (A/L 2018)

    31. Explain what is meant by the term 'barriers to entry". (02 marks) (A/L 2009)

11. **Natural monopoly**
    32. Define the term 'natural monopoly.' (02 marks) (A/L 2010)

12. **Supply curve of the Perfectly competitive market**
    33. What is the connection between the supply curve and its marginal cost curve of a perfectly competitive firm? (4 marks) (A/L 2018)
    34. Discuss whether there is a relationship between the marginal cost curve of the firm and the supply curve of the industry to which it belongs. (04 marks) (A/L 2013)

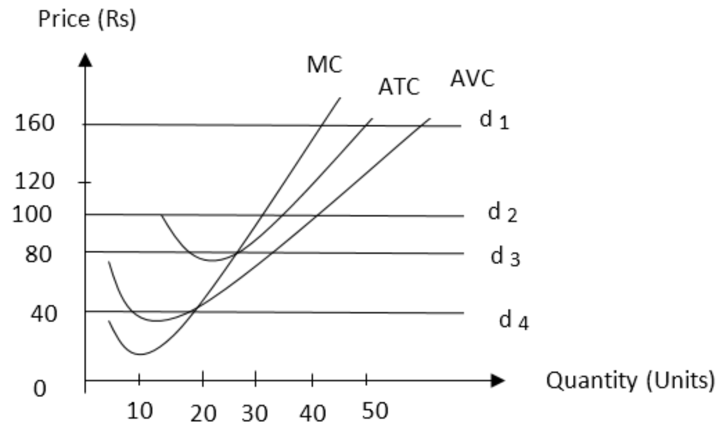
13. **Market structures**

35. State two difference between a perfectly competitive market structure and an oligopolistic market structure. (4 marks) (A/L 2017)

36. Distinguish between normal profit and abnormal profit. (4 marks) (A/L 2017)

37. Why will a firm in a perfectly competitive industry choose not to charge a price either above or below the market price? (04 marks) (A/L 2016)

38. The following diagram shows demand and cost curves of a firm operating in a perfectly competitive market in the short run. (A/L 2016)



a) Calculate the profit earned by the firm at the market price of Rs. 160. (02 marks)
b) What is the shutdown price of the firm? (02 marks)

39. Name the four types of market structures. (4 marks) (A/L 2015)

40. What is the rule of profit maximization? How can this rule be restated when the firm is a price – taker? (4 marks) (A/L 2015)

41. Suppose a price – taking firm, in a given short period, produces 20 units of output. The market price of its output equals Rs. 50 per unit. At 20 units of output, average total cost equals Rs. 60 and average variable cost equals Rs. 40. (A/L 2015)
    a) How much profit or loss does this firm make in the given short period? (2 marks)
    b) How much is the total fixed cost of the firm? (2 marks)

42. Explain why a firm under perfect competition faces a horizontal demand curve while the industry faces a downward sloping demand curve. (04 marks) (A/L 2013)

43. A firm operating in the short period reports that its total revenue is Rs. 100 million, total cost is Rs. 120 million, and total fixed cost is Rs. 40 million. Should the firm stay in business? Why? (04 marks) (A/L 2013)

44. Why is the equality of marginal revenue and marginal cost essential for profit maximization in all market structures? Explain why price (P) can be substituted for marginal revenue (MR) in the MR = MC rule when the firm is operating in a perfectly competitive industry. (04 marks) (A/L 2013)

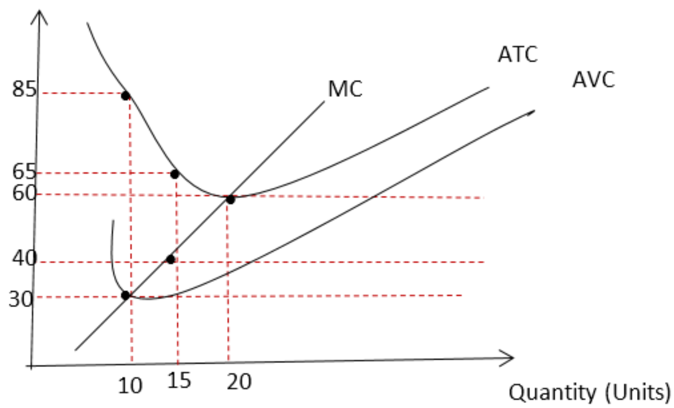
45. What is meant by 'price maker' and 'price taker'? (04 marks) (A/L 2012)

46. What distinguishes oligopoly from monopolistic competition? (06 marks) (A/L 2012)

47. What are the **four** types of market structures? Explain the distinguishing characteristics of any **one** of them. (06 marks) (A/L 2011)

48. Why is a firm in a perfectly competitive industry a price taker? (02 marks) (A/L 2010)

49. The diagram below shows a short run situation of a firm opening in a perfectly competitive industry. (A/L 2010)



a) What is the profit maximizing output that this firm will choose to produce in the short run, if the market price is Rs. 40 per unit of output? (02 marks)

b) Calculate the amount of profit or loss to the firm at this situation. (03 marks)

c) What is the value of fixed cost for this firm? (02 marks)

50. State three characteristics of an oligopolistic market. (03 marks) (A/L 2009)

51. What is the lowest price at which a perfectly competitive firm produces an output in the short run? Explain why? (04 marks) (A/L 2009)

52. Distinguish between monopolistic competition and perfect competition on the basis of any four characteristics. (04 marks) (A/L 2008)

53. Describe the characteristics of (a) perfect competition and (b) oligopoly. (4 marks) (A/L 2006)

54. Suppose a perfectly competitive firm sells 300 eggs at Rs. 10 each per week. At this output, the firm's total variable cost is Rs. 1,800 and its total cost is Rs. 600. From this information, calculate the firms profit per unit and total profit. (4 marks) (A/L 2006)

55. Explain why firms that are marking zero economic profits are likely to continue in business. (3 marks) (A/L 2006)