

## FIRM'S COST OF PRODUCTION AND REVENUES

**Q.1:** State meanings of fixed costs.

**Ans:** **Meaning of Fixed cost:** Fixed costs mean the costs which a firm has to bear in every condition. Fixed costs are also called supplementary costs or indirect costs. These costs have no connection with quantity of output. So they remain equal on every quantity of output. The rent of building of the factory, interest of capital, and wages of permanent staff are included in these costs.

**Q.2:** State meanings of variable costs.

**Ans:** **Meaning of Variable Costs:** The costs which depend on the quantity of output and they increase with the increase in output and decrease with the decrease in output, are called variable costs. If the firm has temporarily closed down its plant (in other words its output is zero) these costs are also zero. Wages of temporary labour, costs of transportation and expenditure on electricity are included in these costs.

**Q.3:** State meanings of total costs.

**Ans:** **Total Costs:** In short period, total costs are equal to the sum of fixed costs and variable costs.

**Q.4:** What is meant by average fixed cost?

**Ans:** **Meaning of average Fixed Cost:** Average fixed cost means per unit fixed cost of output. To know average fixed cost, total fixed costs are divided by total output produced.

$$\text{Average Fixed cost} = \frac{\text{Total fixed costs}}{\text{Total output}}$$

**Q.5:** What is meant by average variable cost?

**Ans:** **Meaning of Average Fixed Cost:** Average variable cost means per unit variable cost of output. To know average variable cost, total variable costs are divided by total output produced.

$$\text{Average variable cost} = \frac{\text{Total variable cost}}{\text{total output}}$$

called explicit costs. Wages paid to the workers, rents paid for the hired building, payment made for the purchase of raw material, electricity and transportation etc. are included in these costs.

Q.13: What is meant by Implicit costs?

Ans: **Meaning of Implicit Costs:** Implicit costs are the costs of firm's self owned and self employed factors. Remunerations included in implicit costs are not paid by the firm to any other person. In implicit costs, wages of labour of firm's owner, interest of his own capital, rent of his own building and depreciation allowance of capital etc. are included.

Q.14: What is meant by opportunity cost?

Ans: **Meaning of Opportunity Cost:** Opportunity cost means the amounts of money which are necessarily paid to shift a factor of production from an alternative use to a specific use. For example, an engineer charges 20 thousand rupees monthly for his services from a firm. If some other firm wants to hire his services, it has to pay at least 20 thousand rupees because at low wages he would not leave the first firm. Therefore, 20 thousand rupees will be opportunity costs.

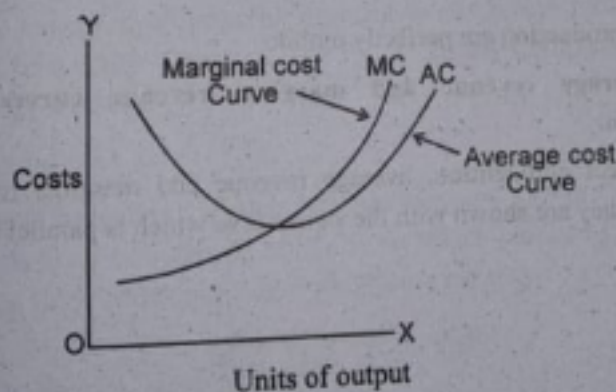
Q.15: State inter-relationship between average cost and marginal cost.

Ans: **Relationship between average cost and marginal cost:** The following inter-relationship exists between average cost and marginal cost:-

- (i) When average cost falls, marginal cost is less than average cost.
- (ii) When average cost is at the lowest level, marginal cost is equal to average cost.
- (iii) When average cost rises, marginal cost is more than average cost.

Q.16: Show Inter-relationship of average cost and marginal cost with the help of a diagram.

Ans:





**Q.6:** What is meant by average total cost or average cost.

**Ans:** **Meaning of Average Cost:** Average total cost or average cost means per unit cost of output. To know average total cost, total costs are divided by total output produced.

$$\text{Average total cost} = \frac{\text{Total costs}}{\text{Total output}}$$

**Q.7:** What is meant by marginal cost.

**Ans:** **Meaning of Marginal Cost:** Addition to total cost occurring due to production of an additional unit of output is called marginal cost. For example, costs of producing 10 meters of cloth is 200 rupees and costs of 11 meters of cloth rises to 215 rupees, then marginal cost will be 15 rupees. The reason is that additional production of one meter cloth causes an increase of 15 rupees in total costs.

**Q.8:** What is meant by total revenue?

**Ans:** **Meaning of Total Revenue:** The amount of money which firm gets by selling its total output, is called total revenue. For example, if a firm sells 100 meters of cloth at price Rs.10 per meter, it will get 1000 rupees. This amount will be total revenue of the firm.

**Q.9:** What is meant by average revenue?

**Ans:** **Meaning of average revenue:** Average revenue means per unit amount of money which a firm obtains by selling its output. To know average revenue, total revenue is divided by units of sold output.

$$\text{Average total cost} = \frac{\text{Total costs}}{\text{Total output}}$$

**Q.10:** What is meant by marginal revenue?

**Ans:** **Meaning of marginal revenue:** Marginal revenue is the amount of money which a firm obtains by selling an additional unit of output. For example if a firm gets total 1000 rupees by selling 100 meters of cloth and it gets 1008 rupees by the sale of 101 meters of cloth, then marginal revenue will be 8 rupees.

$$\text{Marginal Revenue} = 1008 - 1000 = 8 \text{ rupees}$$

**Q.11:** What is meant by costs of production of a firm?

**Ans:** **Meaning of costs of production of firm:** The amount of money which a firm spends on producing a certain quantity of a commodity is called costs of production of the firm.

**Q.12:** What is meant by Explicit costs?

**Ans:** **Meaning of Explicit Costs:** Payments made by the firm for the hired factors or the amounts paid for the various purchased materials and other resources are

called explicit payment made are included in

**Q.13:** What is meant

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**Q.16:** Show Inter-r diagram.

**Ans:**

**Q.17: What is meant by short period (short run).**

**Ans: Short period (Short Run):** Short period means the period of time in which a firm cannot change its size. In other words firm cannot change the size of its factory and number of installed machines. We can say that its productive capacity is fixed.

**Q.18: What is meant by long period (long run).**

**Ans: Long Period (Long Run):** Long period means the period of time in which a firm can change its size. Firm can change its fixed factors of production also. In other words, all factors of production are variable factors.

**Q.19: Differentiate between pure competition and perfect competition.**

**Ans: Difference between pure competition and Perfect Competition:**

**Pure competition:** If in a market following two conditions exist, then it is said that there exists pure competition in that market.

- (i) There are large number of buyer and seller in the market and no buyer or seller can influence the price by his individual action.
- (ii) All the units of the commodity are homogeneous.

**Perfect competition:**

If in a market, in addition to the above mentioned conditions, the following conditions also exists, then it is said that there exists perfect competition in that market.

- (i) There is free entry and exit of the firms in the market.
- (ii) Buyers and sellers are having perfect knowledge about the conditions of the market.
- (iii) Factors of production are perfectly mobile.

**Q.20: Draw average revenue and marginal revenue curves under perfect competition.**

**Ans:** Under perfect competition, average revenue and marginal revenue are equal. Therefore, they are shown with the same curve which is parallel to ox axis

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Q.22: What is meant

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Q.23: Define Industri

**Ans: Meaning of In**  
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