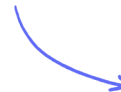


4. Production, Costs & Revenue

Production & Productivity / Specialisation & Division of Labour / Diminishing Returns & Returns to Scale / Costs of Production / Explaining the Shapes of the Cost Curves / Economies & Diseconomies of Scale / Short-run & Long-run Relationships / Marginal, Average & Total Revenue / Profit / Technological Change

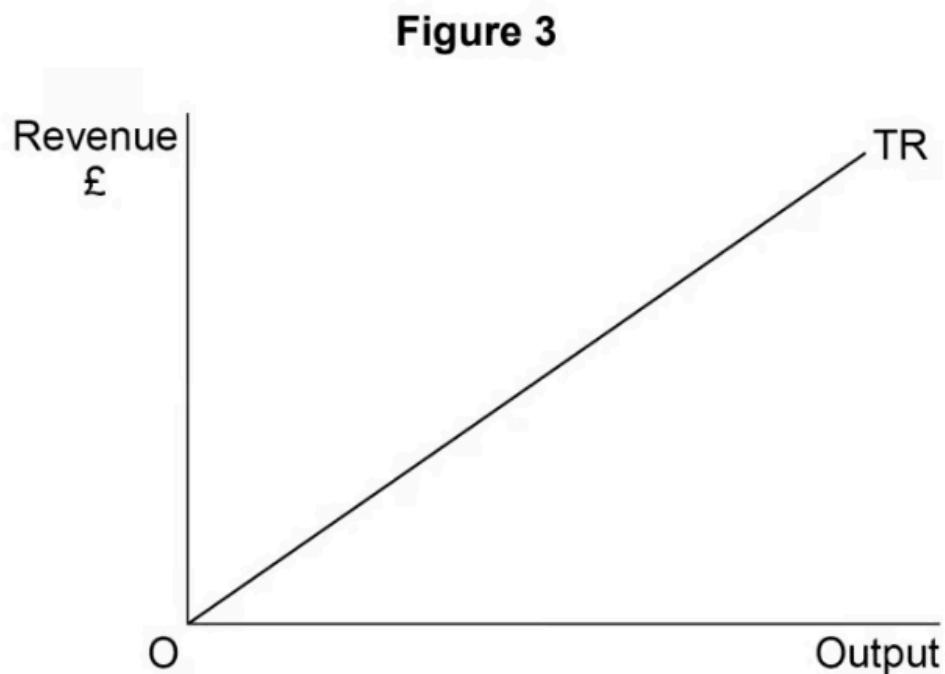
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Total Marks

/26

1 **Figure 3** shows a firm's total revenue (TR) curve.



Which one of the following combinations, **A**, **B**, **C** or **D**, describes how the firm's average revenue and marginal revenue will change as the firm expands its output?

	Average revenue	Marginal revenue
A	Increases	Increases
B	Constant	Constant
C	Decreases	Decreases
D	Increases	Constant

(1 mark)

2 Increased output results from specialisation and the division of labour because they enable

- A. countries to produce outside their production possibility boundary
- B. more efficient use of the available resources
- C. people to exchange goods and services with each other
- D. the use of money as a medium of exchange and store of value

(1 mark)

3 **Table 5** contains data for a firm's marginal cost of producing different outputs of shirts per day. The firm operates in a perfectly competitive market.

Table 5

Output of shirts per day	Marginal cost (£s)
800	8
900	9
1000	10
1100	11

If the market price is £10 per shirt, at which one of the following outputs per day, **A, B, C or D**, will the firm maximise its profit?

- A. 800
- B. 900
- C. 1000
- D. 1100

(1 mark)

- 4 The table below shows how a firm's total cost of producing handbags changes as output increases.

Output (handbags per month)	Total cost per month (£)
0	45 000
1 000	165 000
2 000	250 000
3 000	360 000

What is the average fixed cost of producing 3 000 handbags per month?

- A. £15
- B. £105
- C. £110
- D. £120

(1 mark)

- 5 The UK's labour productivity increases by only 10% over a five year period. Over the same period its main trading partners increase their productivity by 25%. All other things being equal, the most likely consequence for the UK is

- A. a decline in UK imports from its main trading partners
- B. a 15% deterioration in its balance of trade on the current account
- C. a loss of competitiveness against its main trading partners
- D. the imposition of a 15% tariff on imports to maintain international competitiveness

(1 mark)

- 6 The table below shows how a firm's total and average product change, in the short run, with different inputs of labour.

Number of workers	Total product	Average product
4	128	32
5	260	52
6	420	70
7	497	71
8	528	66

Diminishing marginal returns to labour set in when the firm employs

- A. 5 workers
- B. 6 workers
- C. 7 workers
- D. 8 workers

(1 mark)

- 7 A firm benefits from significant and persistent economies of scale as it increases output. Which one of the following is the most likely consequence as it grows in size?

The firm's

- A. ability to set its own prices will increase.
- B. long-run average cost curve will become 'U' shaped.
- C. increasing profitability will attract many new entrants.
- D. total cost of production will decrease.

(1 mark)

- 8 A firm employs three factors of production: capital, land and labour. The table below shows how the firm's output is affected by changing the amount employed of these factor inputs.

Units of output	Units of capital	Units of land	Labour (Number of workers)
500	20	40	60
1000	80	160	240
2000	140	280	420
3000	210	420	630
4000	300	580	860

The firm experiences constant returns to scale when it increases its output from

- A. 500 to 1000 units.
- B. 1000 to 2000 units.

C. 2000 to 3000 units.

D. 3000 to 4000 units.

(1 mark)

- 9** The table below shows possible differences between the meanings of the terms invention and innovation. Which combination, **A**, **B**, **C** or **D**, correctly identifies the difference between the meanings of these terms?

	Invention	Innovation
A	Applies to changes in goods only	Applies to changes in services only
B	Applies to changes in services only	Applies to changes in goods only
C	Discovering something entirely new	Turns the results of invention into a product
D	Turns the results of innovation into a product	Discovering something entirely new

(1 mark)

- 10** The table below shows the output, average total cost and average revenue for a firm.

Units of output	Average total cost (£)	Average revenue (£)
10	15	26
11	14	24
12	13	23
13	12	21

At which one of the following levels of output will the firm maximise its profits?

- A.** 10 units
- B.** 11 units
- C.** 12 units
- D.** 13 units

(1 mark)

11 The marginal revenue product of labour is the

- A.** addition to total revenue when the firm produces and sells an extra unit of output.
- B.** amount produced per worker per time period.
- C.** change in total output that is produced when one extra worker is employed.
- D.** revenue gained by selling the extra output produced by employing one more worker.

(1 mark)

12 In the United States, corporate profits since 2010 have averaged 9% of GDP, compared to 5% in the 1990s. This is causing concern that the US economy is increasingly dominated by companies with monopoly power

Explain the role of profit in a market economy

