

## Chapter 3 – Production and Costs

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### Question 1

Does Total Physical Product increase only when Marginal Physical Product increases?

**Answer:** False, because Total Physical Product increases Marginal Physical Product decreases but remains positive.

### Question 2

What will be the marginal product when the total product is maximum?

**Answer:** Marginal Product will be zero when the total product is maximum.

### Question 3

How is Total Physical Product derived from Marginal Physical Product?

1. Cumulative addition
2. Cumulative subtraction
3. Cumulative product
4. Cumulative Division

**Answer:** Cumulative addition

### Question 4

What do you mean by production?

**Answer:** Production is the method of producing or developing goods or services in large quantities with the help of various materials.

### Question 5

Increase in Total Physical Product indicates that there are increasing returns to a factor.

**Answer:** No, the total physical product also rises when the returns to a factor decrease.

### Question 6

When the returns to a factor decline the marginal and the total product also decline.

**Answer:** False, when returns to a factor decline only Marginal Physical Product declines.

### Question 7

Evaluate the marginal product for the following.

Variable Factor Unit	0	1	2	3	4	5	6
Total Unit	0	5	13	23	28	28	24

**Answer:**

Marginal Product	0	5	8	10	5	0	-4
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**Question 8**

Why Average Fixed Cost curve never touches “x” axis though lies very close to the x-axis?

**Answer:** The Average Fixed Cost curve never touches “x” axis though lies very close to the x-axis because Total Fixed Cost can never be zero.

**Question 9**

Production function shows a technical relationship between physical input and output of a commodity.

1. A technological relationship between inputs and cost
2. The economic relationship between inputs and cost
3. A technological relationship between inputs and output
4. A technological relationship between inputs and price

**Answer:** A technological relationship between inputs and output

**Question 10**

The shape of the Total Physical Product short run is

1. Inverse U-Shaped
2. U-Shaped
3. Hyperbola
4. V-Shaped

**Answer:** Inverse U-Shaped

**Question 11**

In the short run Total Product Price changes with the change in which of the following factors.

1. Economic Cost
2. Fixed Cost
3. All the factors
4. Variable Cost

**Answer:** Variable Cost

### **Question 12**

When TVC is zero at zero levels of output, what happens to TFC or why TFC is not zero at zero level of output?

**Answer:** When TVC is zero at zero levels of output, what happens to TFC or why TFC is not zero at zero levels of output because the fixed cost is to be acquired even at zero levels of output.

### **Question 13**

What is a change in quantity demanded?

**Answer:** It is a change along a demand curve. The change is due to a change in price and quantity of a commodity. The two types of change in quantity demand are Extension in demand and Contraction in demand.

### **Question 14**

Define cost concept. What are the different types of cost?

**Answer:** The spending experienced on different inputs is known as the cost.

Types of cost

- **Money Cost-** Total money spent by a company for manufacturing goods.
- **Explicit Cost & Implicit Cost-** Payment made to an outsider are explicit and self-supplied are implicit cost.
- **Real Cost-** All hard work, discomforts, sacrifices involved in manufacturing a product is called real cost.
- **Opportunity Cost-** This the cost for the next best alternative foregone.
- **Short Run Cost- Fixed cost-** Fixed factors cost

**Variable Cost**– Variable factor cost

### **Question 15**

Explain the relation between Average Cost and Marginal Cost.

**Answer:** The relation between Average Cost and Marginal Cost

- When Average Cost decreases, Marginal Cost declines faster than the Average Cost. So, that Marginal Cost curve remains lower than the Average Cost curve. This means Average Cost > Marginal Cost.

- When Average Cost increases, Marginal Cost rises faster than the Average Cost. SO, that MC curve is above the Average Cost curve
- Marginal Cost curve intersects Average Cost curve from its lowest point. When the average curve is minimum then Marginal Cost = Average Cost.