

Chapter 13 Costs of Production Practice Test

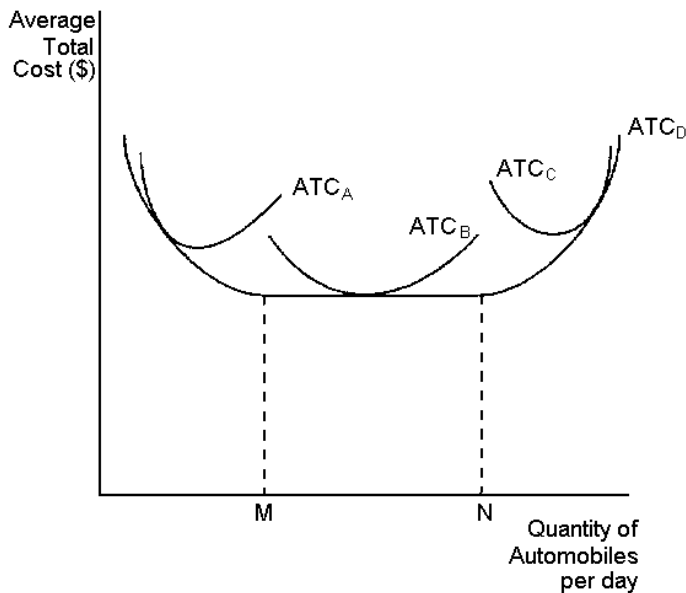
Multiple Choice

Identify the letter of the choice that best completes the statement or answers the question.

- _____ 1. Total revenue equals
 - a. total output multiplied by sales price of output.
 - b. total output multiplied by profit.
 - c. (total output multiplied by sales price) - inventory surplus.
 - d. (total output multiplied by sales price) - inventory shortage.
- _____ 2. If a firm produces nothing, which of the following costs will be zero?
 - a. variable cost
 - b. total cost
 - c. average cost
 - d. opportunity cost
- _____ 3. Average total cost is equal to
 - a. average fixed cost + average variable cost.
 - b. total cost - total quantity of output.
 - c. average variable cost + total fixed cost.
 - d. average variable cost x total quantity of output.
- _____ 4. The amount that total cost rises when the firm produces one additional unit is called
 - a. marginal cost.
 - b. average cost.
 - c. fixed cost.
 - d. variable cost.
- _____ 5. Average total cost tells us
 - a. the cost of a typical unit of output, if total cost is divided evenly over all the units produced.
 - b. the cost of the last unit of output, if total cost does not include a fixed cost component.
 - c. the variable cost of a firm that is producing at least one unit of output.
 - d. the total cost of the first unit of output, if total cost is divided evenly over all the units produced.
- _____ 6. Marginal cost tells us
 - a. the marginal increment to profitability when price is constant.
 - b. the value of all resources used in a production process.
 - c. the amount total cost rises when output rises by one unit.
 - d. the amount fixed cost rises when output rises by one unit.
- _____ 7. Diminishing marginal product suggests that
 - a. marginal cost is downward sloping.
 - b. additional units of output are more expensive.
 - c. the firm is at full capacity.
 - d. all of the above.

- ___ 8. When marginal cost is less than average total cost,
 - a. marginal cost must be falling.
 - b. average total cost is falling.
 - c. average total cost is rising.
 - d. average variable cost must be falling.
- ___ 9. If marginal cost is below average total cost, average total cost
 - a. is falling.
 - b. is rising.
 - c. is constant.
 - d. may rise or fall depending on the size of fixed costs.
- ___ 10. Diminishing marginal product occurs
 - a. immediately after the first worker is hired.
 - b. after the marginal cost curve crosses the average total cost curve.
 - c. at different times for different firms.
 - d. when average variable cost begins to fall.

Graph 13-6



The figure shown depicts average total cost functions for a firm that produces automobiles. Use the figure to answer the following questions.

- ___ 11. Refer to Graph 13-6. Which of the curves is most likely to characterize the short-run average total cost curve of the biggest factory?
 - a. ATC_A
 - b. ATC_B
 - c. ATC_C
 - d. ATC_D

- _____ 12. Refer to Graph 13-6. At levels of output above point N the firm experiences
- economies of scale.
 - diseconomies of scale.
 - economic profit.
 - accounting profit.
- _____ 13. Specialization among workers occurs when
- each worker is allowed to perfect one particular task.
 - each worker is responsible for a number of different tasks.
 - quality management allows workers to switch from one task to another.
 - all of the above.

Table 13-3

Use the information below to answer the following questions
Measures of Cost for ABC Inc. Widget Factory.

Quantity of Widgets	Fixed Costs	Variable Costs	Total Costs
0	\$10		
1		\$1	
2		\$3	\$13
3		\$6	\$16
4		\$10	
5			\$25
6	\$10	\$21	

- _____ 14. Refer to Table 13-3. What is the marginal cost of producing the first widget?
- It can't be determined from the information given.
 - \$1.00
 - \$10.00
 - \$11.00

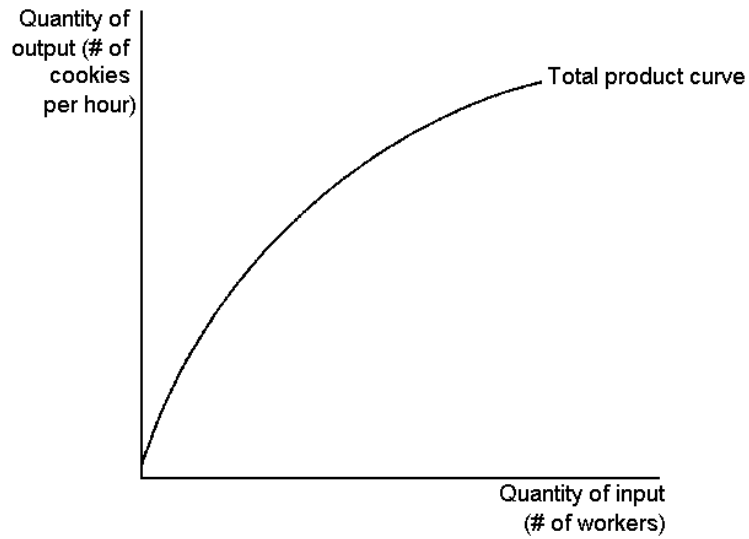
Table 13-5

Teacher's Helper is a small company that has a subcontract to produce instructional materials for disabled children in public school districts. The owner rents several small rooms in an office building in the suburbs for \$600 a month and has leased computer equipment that costs \$480 a month.

Output (Instructional Modules per month)	Fixed Cost	Variable Cost	Total Cost	Average Fixed Cost	Average Variable Cost	Average Total Cost	Marginal Cost
0	1,080						
1	1,080	400	1,480				400
2						965	450
3		1,350	2,430				
4		1,900			475		
5		2,500		216			
6			4,280				700
7		4,100					
8		5,400		135			
9		7,300					
10			10,880		980		

- _____ 15. Refer to Table 13-5. What is the average variable cost for the month if 6 instructional modules are produced?
- \$180.00
 - \$533.33
 - \$700.00
 - \$713.33
- _____ 16. An example of an implicit cost of production would be
- the cost of raw materials for producing bread in a bakery.
 - the cost of a delivery truck in a business that rarely makes deliveries.
 - the income an entrepreneur could have earned working for someone else.
 - all of the above.
- _____ 17. Economic profit is equal to
- total revenue minus the opportunity cost of producing goods and services.
 - total revenue minus the accounting cost of producing goods and services.
 - total revenue minus the explicit cost of producing goods and services.
 - average revenue minus the average cost of producing the last unit of a good or service.

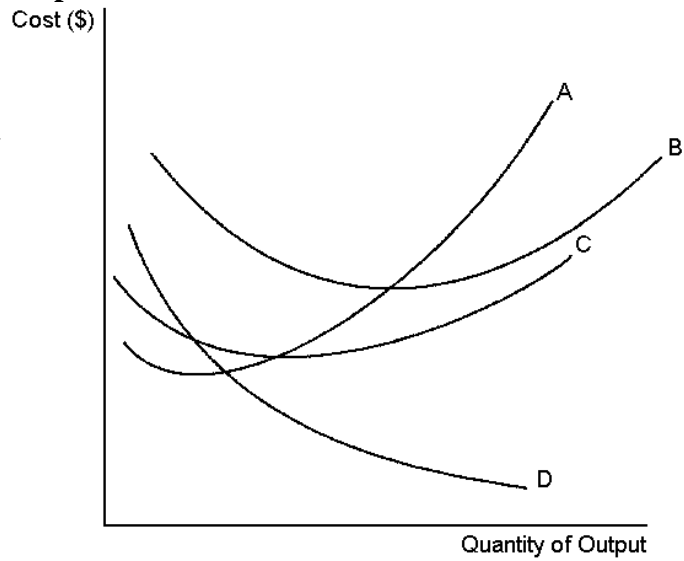
Graph 13-1



The figure shown depicts a production function for a firm that produces cookies. Use the figure to answer the following questions.

- ___ 18. Refer to Graph 13-1. As the number of workers increases,
- a. marginal product increases, but at a decreasing rate.
 - b. total output increases, but at a decreasing rate.
 - c. marginal product increases.
 - d. total output decreases.

Graph 13-5



The set of lines above reflect information about the cost structure of a firm. Use the figure to answer the following questions.

- ___ 19. Refer to Graph 13-5. Which of the lines is most likely to represent average variable cost?
- a. A
 - b. B
 - c. C
 - d. D
- ___ 20. Refer to Graph 13-5. Which of the lines is most likely to represent marginal cost?
- a. A
 - b. B
 - c. C
 - d. D