

S.S.R. DEGREE COLLEGE, (AUTONOMOUS)
NIZAMABAD (C.C:5029)
I-SEMESTER INTERNAL ASSESSMENT – II EXAMINATIONS
BUSINESS ECONMICS
QUESTION BANK

Production & Cost Analysis – MCQs

1. The production function shows the relationship between:

- A) Cost and output
- B) Inputs and output
- C) Profit and sales
- D) Revenue and cost

Answer: B

2. In the short run, at least one factor of production is:

- A) Variable
- B) Fixed
- C) Both fixed and variable
- D) None

Answer: B

3. In the long run, all factors of production are:

- A) Fixed
- B) Variable
- C) Constant
- D) Decreasing

Answer: B

4. The law of variable proportions is also known as the law of:

- A) Increasing returns
- B) Diminishing returns
- C) Constant returns
- D) Returns to scale

Answer: B

5. The law of variable proportions operates in the:

- A) Short run
- B) Long run
- C) Both
- D) Neither

Answer: A

6. When all inputs are increased and output increases more than proportionately, it is called:

- A) Constant returns to scale
- B) Increasing returns to scale
- C) Decreasing returns to scale
- D) Law of diminishing returns

Answer: B

7. Which cost remains constant regardless of the level of output?

- A) Variable cost
- B) Marginal cost
- C) Fixed cost
- D) Opportunity cost

Answer: C

8. Which of the following is a variable cost?

- A) Rent
- B) Insurance premium
- C) Raw material cost
- D) Depreciation

Answer: C

9. Total Cost (TC) equals:

- A) $FC + MC$
- B) $VC + FC$
- C) $VC \times FC$
- D) $VC \div FC$

Answer: B

10. Marginal cost is defined as:

- A) Cost of producing one extra unit
- B) Average cost of all units
- C) Total cost divided by output
- D) Fixed cost per unit

Answer: A

11. Opportunity cost refers to:

- A) Past cost
- B) Unavoidable cost
- C) Cost of next best alternative foregone
- D) Sunk cost

Answer: C

12. Sunk cost is:

- A) Recoverable
- B) Avoidable
- C) Not relevant for decision-making
- D) Always variable

Answer: C

13. Average cost is calculated as:

- A) Total cost $\times$ Quantity
- B) Total cost $\div$ Quantity
- C) Total fixed cost $\div$ Quantity
- D) Marginal cost $\div$ Quantity

Answer: B

14. The break-even point is where:

- A) Total revenue = Total cost
- B) Total revenue $>$ Total cost
- C) Total revenue $<$ Total cost
- D) Marginal cost = Marginal revenue

Answer: A

15. At the break-even point, the firm makes:

- A) Profit
- B) Loss
- C) No profit, no loss

D) Maximum profit

Answer: C

16. The formula for BEP (in units) is:

A) $FC / (SP + VC)$

B) $FC \times (SP - VC)$

C) $FC / (SP - VC)$

D) $(SP - VC) / FC$

Answer: C

17. In the short run, diminishing returns to a factor occur when:

A) Total product increases at an increasing rate

B) Marginal product decreases

C) Average product increases

D) Marginal cost decreases

Answer: B

18. When output increases less than proportionately to inputs, it is:

A) Constant returns to scale

B) Increasing returns to scale

C) Decreasing returns to scale

D) Law of variable proportions

Answer: C

19. Which of the following is not a type of cost?

A) Fixed cost

B) Variable cost

C) Average product

D) Marginal cost

Answer: C

20. The law of variable proportions assumes:

A) All inputs are variable

B) Technology changes

C) Only one input is varied, others are fixed

D) All inputs are fixed

Answer: C

Answer Key Summary:

1-B | 2-B | 3-B | 4-B | 5-A | 6-B | 7-C | 8-C | 9-B | 10-A |
11-C | 12-C | 13-B | 14-A | 15-C | 16-C | 17-B | 18-C | 19-C | 20-

Fill in the Blanks – Production & Cost Analysis

1. The _____ function shows the relationship between inputs and output.
2. In the short run, at least one factor of production is _____.
3. In the long run, all factors of production are _____.
4. The law of variable proportions operates in the _____ period.
5. The law of variable proportions is also called the law of _____ returns.
6. When output increases more than proportionately to inputs, it is called _____ returns to scale.
7. When output increases less than proportionately to inputs, it is called _____ returns to scale.
8. Costs that remain constant irrespective of output are called _____ costs.
9. Costs that change with the level of output are called _____ costs.
10. The sum of fixed cost and variable cost is called _____ cost.
11. The additional cost of producing one more unit of output is called _____ cost.
12. The cost per unit of output is known as _____ cost.
13. Costs that cannot be recovered once incurred are called _____ costs.
14. The value of the next best alternative foregone is called _____ cost.
15. The point at which total cost equals total revenue is called the _____ point.
16. At the break-even point, the firm makes _____ profit and _____ loss.
17. The formula for break-even point (in units) is _____ ÷ (Selling Price per unit – Variable Cost per unit).
18. When total product increases at a decreasing rate, the firm experiences _____ returns to a factor.
19. In the first stage of the law of variable proportions, marginal product _____.
20. In the third stage of the law of variable proportions, total product _____.

Answer Key

1. Production
2. Fixed
3. Variable
4. Short run
5. Diminishing

6. Increasing
7. Decreasing
8. Fixed
9. Variable
10. Total
11. Marginal
12. Average
13. Sunk
14. Opportunity
15. Break-even
16. No; no
17. Fixed Cost
18. Diminishing
19. Increases
20. Decreases

Unit V – Market Structures & Pricing Strategies – MCQs

1. The market structure with a large number of buyers and sellers and homogeneous products is called:

- A) Monopoly
- B) Perfect competition
- C) Oligopoly
- D) Monopolistic competition

Answer: B

2. In a monopoly, there is:

- A) One buyer and many sellers
- B) Many buyers and many sellers
- C) One seller and many buyers

D) Few sellers and few buyers

Answer: C

3. The main feature of perfect competition is:

A) Price discrimination

B) Differentiated products

C) Free entry and exit

D) Collusion among firms

Answer: C

4. The market structure in which a few firms dominate is known as:

A) Monopoly

B) Oligopoly

C) Perfect competition

D) Monopolistic competition

Answer: B

5. The market structure that combines features of both monopoly and perfect competition is:

A) Oligopoly

B) Duopoly

C) Monopolistic competition

D) Perfect competition

Answer: C

6. In perfect competition, firms are:

A) Price makers

B) Price takers

C) Price controllers

D) Price regulators

Answer: B

7. A firm that can influence the market price of its product is known as a:

A) Price taker

B) Price maker

C) Price acceptor

D) Price follower

Answer: B

8. The demand curve under monopoly is:

- A) Perfectly elastic
- B) Perfectly inelastic
- C) Downward sloping
- D) Horizontal

Answer: C

9. Under perfect competition, the demand curve faced by a firm is:

- A) Downward sloping
- B) Perfectly elastic
- C) Perfectly inelastic
- D) Upward sloping

Answer: B

10. Under monopolistic competition, products are:

- A) Homogeneous
- B) Identical
- C) Differentiated
- D) Perfect substitutes

Answer: C

11. A market with only two firms is known as a:

- A) Monopoly
- B) Duopoly
- C) Oligopoly
- D) Monopolistic competition

Answer: B

12. When firms in an oligopoly act together to fix prices, it is called:

- A) Collusion
- B) Competition
- C) Integration
- D) Price war

Answer: A

13. Price discrimination is possible only under:

- A) Perfect competition
- B) Monopoly
- C) Monopolistic competition
- D) Oligopoly

Answer: B

14. The pricing strategy of setting a high price initially and reducing it later is called:

- A) Penetration pricing
- B) Skimming pricing
- C) Cost-plus pricing
- D) Psychological pricing

Answer: B

15. The pricing strategy of setting a low initial price to attract customers is called:

- A) Skimming pricing
- B) Cost-plus pricing
- C) Penetration pricing
- D) Premium pricing

Answer: C

16. Cost-plus pricing involves adding a certain percentage of profit to:

- A) Fixed cost
- B) Variable cost
- C) Total cost
- D) Marginal cost

Answer: C

17. A pricing strategy used to make prices seem lower than they actually are (e.g., ₹99 instead of ₹100) is called:

- A) Psychological pricing
- B) Predatory pricing
- C) Premium pricing

D) Discount pricing

Answer: A

18. The persistent rise in the general price level over a period of time is known as:

A) Deflation

B) Inflation

C) Recession

D) Depression

Answer: B

19. Inflation reduces the purchasing power of:

A) Money

B) Goods

C) Labor

D) Capital

Answer: A

20. When the rate of inflation is very high and uncontrolled, it is called:

A) Creeping inflation

B) Moderate inflation

C) Hyperinflation

D) Deflation

Answer: C

Answer Key Summary:

1-B | 2-C | 3-C | 4-B | 5-C | 6-B | 7-B | 8-C | 9-B | 10-C |

11-B | 12-A | 13-B | 14-B | 15-C | 16-C | 17-A | 18-B | 19-A | 20-C

Fill in the Blanks – Unit V: Market Structures & Pricing Strategies

1. A market with a **large number of buyers and sellers** producing **homogeneous products** is called _____.
2. In a **monopoly**, there is only _____ seller in the market.
3. Under **perfect competition**, firms are known as price _____.
4. In **monopolistic competition**, products are _____ from one another.
5. In the **short run**, a monopolist can earn _____ profits.
6. When only a few firms dominate the market, the structure is called _____.
7. When two firms dominate a market, it is called _____.
8. In perfect competition, the demand curve faced by an individual firm is _____ to the X-axis.
9. The demand curve of a monopolist is _____ sloping.
10. The **law of one price** applies to _____ competition.
11. When firms in an oligopoly cooperate instead of competing, it is called _____.
12. The pricing method that involves adding a fixed percentage of profit to cost is called _____ pricing.
13. Setting a **high price initially** and lowering it later is called _____ pricing.
14. Setting a **low price initially** to attract customers is called _____ pricing.
15. Pricing a product at ₹99 instead of ₹100 is an example of _____ pricing.
16. The general and sustained rise in the price level of goods and services is called _____.
17. A fall in the general price level is called _____.
18. Inflation reduces the _____ power of money.
19. When the rate of inflation is extremely high, it is called _____.
20. When the inflation rate is slow and steady, it is called _____ inflation.

Answer Key

1. Perfect competition
2. One
3. Takers
4. Differentiated
5. Abnormal / Supernormal
6. Oligopoly
7. Duopoly
8. Horizontal / Perfectly elastic
9. Downward
10. Perfect
11. Collusion
12. Cost-plus
13. Skimming
14. Penetration
15. Psychological

16. Inflation
17. Deflation
18. Purchasing
19. Hyperinflation
20. Creeping

Long Questions

1. Explain the different types of market structures. Discuss the key features of perfect competition, monopoly, monopolistic competition, and oligopoly?
2. 2. What are pricing strategies? Explain different types of pricing strategies used by firms under various market conditions?
3. . Explain the Law of Variable Proportions with the help of a diagram?
4. Explain the different types of cost concepts and their relationships with suitable examples.
5. What is Break-Even Analysis? Explain its significance and how the Break-Even Point (BEP) is calculated?