

OUTPUT AND COSTS

PRACTICE QUESTIONS

1.

L1-00690 LOS4.17.c

In a perfectly competitive market, the minimum price at which a profit-seeking firm will choose to continue production in the short run is the minimum:

- a. Total cost per unit of output.
- b. Fixed cost per unit of output.
- c. Variable cost per unit of output.

2.

L1-00574 LOS4.17.b

A gadget factory owner finds that employing 20 workers produces a total output of 300 units. When 21 workers are employed, all other things being equal, total output rises to 310 units. In this situation, with:

- a. 20 workers, the average total product of labor is 6,000 units.
- b. 21 workers, the marginal product of labor is 10 units.
- c. 21 workers, the average total product of labor is 15 units.

3.

L1-00581 LOS4.17.c

The RMC Corp. has a cost structure for various levels of output as shown below:

<u>Output</u>	<u>Total Costs</u>	<u>Fixed Costs</u>
0 units	\$20,000	\$20,000
1,000 units	\$25,000	\$20,000
2,000 units	\$31,000	\$20,000
3,000 units	\$38,000	\$20,000
4,000 units	\$46,000	\$20,000

Based on this information, at an output of:

- a. 2,000 units, RMC's average variable cost is \$4.50 per unit.
- b. 3,000 units, RMC's average total cost is \$11.67 per unit.
- c. 4,000 units, RMC's average variable cost is \$6.50 per unit.

4.

L1-00576 LOS4.17.b

Which of the following statements concerning total output, average output per worker, and marginal output per worker is correct?

- a. When total output is rising, marginal output per worker is positive.
- b. When marginal output per worker is negative, total output is rising.
- c. When average output per worker is rising, marginal output per worker is less than average output per worker.

5.

L1-00610 LOS4.17.d

Which of the following is a correct statement regarding the long-run average total cost curve of a firm?

- a. It is the envelope curve connecting the short-run average total cost curves of operating plants that exhibit decreasing economies of scale and constant returns to scale (only).
- b. There is no correlation between the plant size/efficiency that connects the short-run average total cost curves with the long-run average total cost curve.
- c. It is the envelope curve connecting all short-run average total cost curves of various size operating plants that exhibit economies of scale, constant return to scale, and diseconomies of scale.