C O R - R & U - Reason-Based Questions

Q.1. Marginal revenue does not accrue to first unit of the output because marginal revenue is defined as revenue when an additional unit of output is sold.

Ans. False. Because even first unit is an additional unit when the change is considered from 0 to 1.

$MR_{(1st\ unit)} = TR_1 – TR_0$

Q.2. When MR is falling, TR increases at a decreasing rate.

Ans. True. When MR is falling, less and less is added to TR for every additional unit of output. So that, TR increases only at a decreasing rate.

Q.3. TR curve can touch the X-axis.

Ans. True. In a situation of zero price, AR touches X-axis. Accordingly, TR also touches X-axis.

Q.4. MR is constant, TR should be increasing at a constant rate.

Ans. True. TR is the sum of marginal revenues corresponding to different levels of output. Since MR is constant, TR should be increasing at a constant rate.

Q.5. When TR curve is a horizontal line, MR curve is constant.

Ans. False. When TR curve is a horizontal line, MR curve will touches X-axis, *i.e.*, MR will be zero (0). Because addition to TR (which is MR) will be zero in this case.

Q.6. MR is less than AR for a monopoly firm.

Ans. True. A firm under monopoly faces a downward sloping demand curve which means it can sell more only at lower price. As the quantity of output sold increases, price or AR decreases. Decreasing AR implies decreasing MR. If AR declines, MR declines faster than AR. Hence, AR > MR or AR curve is above MR curve.

Q.7. MR can be negative in case of perfect competition.

Ans. False. Under perfect competition, negative MR is not possible because price is given to a firm. MR can be negative only when price of a commodity is declining which is possible in case of monopoly or monopolistic competition.

Q.8. AR curve is a horizontal straight line under perfect competition.

Ans. True. AR curve is a horizontal straight line under perfect competition because a firm under perfect competition is a price taker. Implying a constant AR for a firm at all levels of output.

Q.9. Demand curve under monopoly is perfectly elastic.

Ans. False. Demand curve under monopoly is relatively less elastic. Because, monopolist is a single seller of the product, and there are no close substitutes of the product in the market.

Q.10. AR curve is less elastic under monopolistic competition than under monopoly.

Ans. False. AR curve is more elastic under monopolistic competition than under monopoly. This is owing to the fact that while a firm under monopolistic competition has a large number of close substitutes in the market, a monopoly firm has none.

Q.11. Price line is a horizontal straight line under perfect competition but not under monopolistic competition.

Ans. True. Price line is a horizontal straight line under perfect competition because a firm under perfect competition can sell any quantity of the commodity at the given price. Under monopolistic competition, price line slopes downward because a firm can sell more of the commodity only by lowering the price.

Q.12. Marginal revenue can never be equal to price of the commodity.

Ans. False. MR can be equal to price (AR) of the commodity when AR is constant, so that AR and MR are equal at all levels of output. This is true of a firm under perfect competition.