

C O C - R & U - Very Short - Info & Con

Q.1. What is money cost?

Ans. Money cost refers to the sum total of monetary expenses incurred by the producer for producing a given output.

Q.2. What is meant by explicit cost?

Ans. Explicit cost refers to the cost incurred on account of purchases of factor and non-factor inputs from the market.

Q.3. What is meant by implicit cost?

Ans. Implicit cost is the opportunity cost of self-owned and self-employed resources. Interest on entrepreneur's own capital or rent on entrepreneur's own buildings are examples of implicit costs.

Q.4. What is meant by opportunity cost?

Ans. Opportunity cost is the total sacrifice made for availing an opportunity (or producing a given level of output).

Q.5. What is meant by fixed or supplementary cost?

Ans. Fixed or supplementary costs are those costs which do not change with change in the level of output.

Q.6. What is meant by prime or variable cost?

Ans. Prime or variable costs are those costs which change as the level of output changes.

Q.7. What is meant by total cost?

Ans. Total cost refers to the sum total of fixed and variable costs incurred by the producer to produce a given quantity of output.

Total Cost (TC) = Total Fixed Cost (TFC) + Total Variable Cost (TVC)

Q.8. What is meant by average cost?

Ans. Average cost is the cost per unit of output produced.

$$AC = \frac{TC}{Q}$$

Also,

$$AC = AFC + AVC$$

(Here, AFC = Average fixed cost; and AVC = Average variable cost.)

Q.9. What is meant by marginal cost?

Ans. Marginal cost is additional cost owing to the production of an additional unit of output.

Q.10. How does total fixed cost change when the output changes?

Ans. Total fixed cost remains unchanged even when output changes.

Q.11. How is the total variable cost derived from a marginal cost schedule?

Ans. Total variable cost can be found out by taking the summation of marginal costs.

$$TVC = \sum MC$$

Q.12. Why is fixed cost curve parallel to X-axis?

Ans. Fixed cost remains constant at all levels of output. So, fixed cost curve is parallel to X-axis.

Q.13. Under what circumstances variable cost is zero?

Ans. When production is zero, the variable cost will also be zero.

Q.14. What is the behaviour of total variable cost, as output increases?

Ans. Initially, total variable cost increases at decreasing rate and eventually, it increases at an increasing rate.

Q.15. Why does average cost fall as output rises?

Ans. Average cost falls as output rises, because of increasing returns to a factor.

Q.16. What is the behaviour of average fixed cost as output increases?

Ans. Average fixed cost continuously decreases as output increases. But it never reduces to zero.

Q.17. Can AFC curve meet X-axis?

Ans. AFC is a rectangular hyperbola. It never touches any axis.

Q.18. Which cost, fixed or variable, determines MC?

Ans. Variable cost determines MC.

Q.19. What is the shape of AC curve?

Ans. AC curve is generally 'U' shaped.

Q.20. What is the shape of MC curve?

Ans. MC curve is generally 'U' shaped.

Q.21. What will happen to ATC when $MC > ATC$?

Ans. When $MC > ATC$, ATC must rise.

Q.22. At what point MC curve cuts AC curve?

Ans. MC curve cuts AC curve at its lowest point.