

R & U - Reason-Based Questions

Q.1. MR = MC is a sufficient condition for producer's equilibrium.

Ans. False. Profits are maximised when:

(i) MR = MC, and

(ii) MC should be rising. Thus, MR = MC is a necessary condition of producer's equilibrium, NOT a sufficient condition.

Q.2. A producer attains his equilibrium in the first stage of production.

Ans. False. Because in the first stage, employment of every additional unit of the variable factor (other things remaining constant) is giving more and more marginal output (rising MP). When MP is rising, MC should be falling. So that, no producer will stop production in this stage of production.

Q.3. A firm sells 5 units of the output at the price of ₹ 40 per unit. The cost of producing that quantity of output is ₹ 180. The firm is earning normal profits in this situation.

Ans. False. Normal profits occur when TR = TC.

TR (total revenue) = Price × Quantity

= ₹ 40 × 5 units

= ₹ 200

TC (total cost) = ₹ 180

Here, 200 > 180. In other words, we can say that, TR > TC. Therefore, the firm is earning abnormal profits in this situation.

Q.4. Equilibrium always refers to a situation when profits are maximised.

Ans. False. During the short period, a firm may be incurring losses, even when:

(i) MR = MC, and

(ii) MC is rising.

Thus, equilibrium refers to a situation when profits are maximised or losses are minimised.