

Revision Worksheet Answers

A2 Economics

Answer: Calculating Costs

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WORKSHEET ..Answer..

Revision Topic : Calculating the Costs of a Firm

Answers to Multiple Choice Questions

Question 1

Correct Answer E (1 mark)

Answer Guide :

A diagram with the relevant part of the cost curves indicated is worth up to (2 marks). For the third mark there must be some explanation of the possibility of MC rising whilst AC is falling e.g. in terms of the extra cost being below the current average so bringing it down (1 mark). If the candidate has a correct AC, MC diagram but incorrect explanation then (1 mark). If the candidate correctly defines MC and AC, then (1 mark), but not in addition to the diagram mark.

Question 2

Correct Answer B (1 mark)

Answer Guide :

Definition of fixed costs as those independent of the level of output (1 mark) and application to computer security (up to 2 marks) Also award for distinguishing fixed costs from variable costs by explanation or example of variable cost (1 mark) Also award diagram of total fixed cost (1 mark)

Question 3

Correct Answer C (1 mark)

Answer Guide :

Definition of average cost and marginal cost – this may be implicit in a correct calculation (1 mark). Appropriate calculation to show that marginal cost is rising

but average cost falling over the given range of output (2 marks) diagram of MC, AC (1 mark) indication on diagram of relevant output range (1 mark).

Question 4

Correct Answer A (1 mark)

Answer Guide :

Definition of marginal costs (1 mark). Recognition that the diagram shows constant total costs, i.e. that the cost of an extra unit of output is zero over the range AB. (2 marks)

Question 5

Correct Answer E (1 mark)

Answer Guide :

Definition of MC (1 mark) here positive, so total costs are rising (2 marks) albeit at a diminishing rate (1 mark).

Question 6

Correct Answer E (1 mark)

Answer Guide :

Correct definition of AVC (must have sense of per unit) – or formula (1 mark)
Correct calculation shown ($\pounds 5000 \div \pounds 5000 = \pounds 1$) or other use of data (2 marks)
Also award annotation of diagram (1 mark) Distinguishing between TFC and TVC (or AFC and AVC) (1 mark).

Question 7

Correct Answer C (1 mark)

Answer Guide :

Correct calculations of both AC and MC (2 marks)

If one set of calculation (1 mark)

Total Output of Furniture	Total Costs £	Average Cost £	Marginal Cost £
0	1,000	-----	-----
1	1,400	1,400	400
2	1,700	850	300
3	1,900	633	200

Also award correct formula or definition of MC or AC (1 mark).

Accept explanation or diagram of falling AC and MC curves (1 mark)

Question 8

Correct Answer A (1 mark)

Answer Guide :

Definition of economies of scale (Long-run average costs fall (1 mark) as out put increases (1 mark). This may be shown by diagram instead. (2 marks) Application to transfer of sea containers – Technical or volume based scale economy (1 mark)

Question 9

Correct Answer E (1 mark)

Answer Guide :

Definition of fixed cost or formula of average fixed cost (Total fixed cost ÷ total output or fixed cost per unit of output) or annotation on diagram, showing total fixed costs as a horizontal line (1 mark)

Application – correct calculation: $£10,000 \div 1000 = £10$ (2 marks).

(NB 1 mark for identifying fixed cost as £10,000).

NB a maximum of 2 marks from calculation.

Question 10

Correct Answer E (1 mark)

Answer Guide :

Explanation that in the short run only variable cost have to be covered, i.e. short run equilibrium (2 marks) Application of variable costs to rail travel (1 mark) This is not a long run position, or other evaluative point (1 mark) Correct definition of price discrimination (1 mark) and explanation up to (2 marks).