

Economics Revision Worksheet

A2 Economics

Calculating Costs

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WORKSHEET

Revision Topic : Calculating the Costs of a Firm

Multiple Choice Questions

Question 1

Which of the following statements about cost curves is correct?

- A** Average costs always rise when marginal costs rise.
- B** Average costs are always higher than marginal costs.
- C** Average costs always rise through the minimum of marginal costs.
- D** Marginal costs are negative when average costs are falling.
- E** Average costs may be falling when marginal costs are rising.

Question 2

Spending by firms on internet security is expected to soar over the next few years as a result of recent outbreaks of computer viruses such as 'MyDoom'. This expenditure can best be classified as :

- A** a rise in variable costs.
- B** a rise in fixed costs.
- C** a reduce in revenue.
- D** a fall in marginal costs.
- E** a rise in normal profits

Question 3

A firm producing hand-built sports cars faces the following costs :

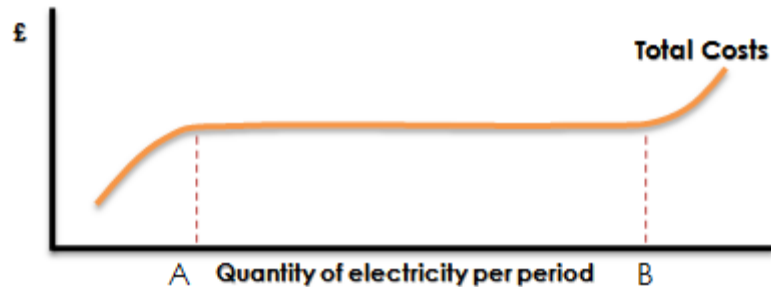
Total Output Of Cars	Total Costs
100	£800,000
101	£806,000
102	£813,000

The data illustrate that :

- A** If marginal costs are rising they must be above average costs.
- B** Average costs are equal to marginal cost at the minimum of marginal cost.
- C** If marginal costs are rising they may be below average costs.
- D** For this firm, marginal cost is falling over the indicated range of output.
- E** For this firm, average costs are rising over the indicated range of output.

Question 4

A hydroelectric power generator finds that, over its usual range of output AB, its total costs are best illustrated by the following curve:

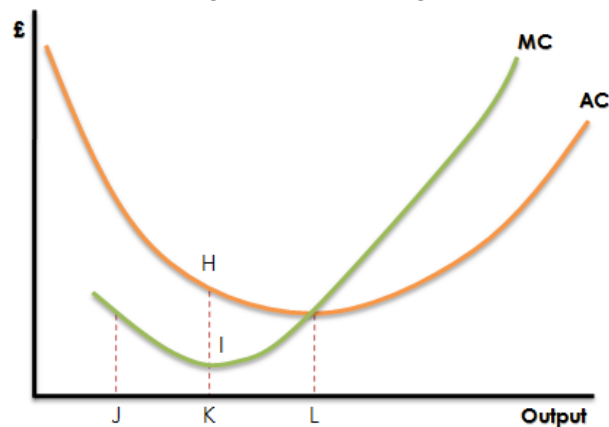


Which of the following describes the firm's costs over its usual range of output?

- A** zero marginal costs
- B** constant positive marginal costs
- C** zero average costs
- D** constant average costs
- E** rising average costs.

Question 5

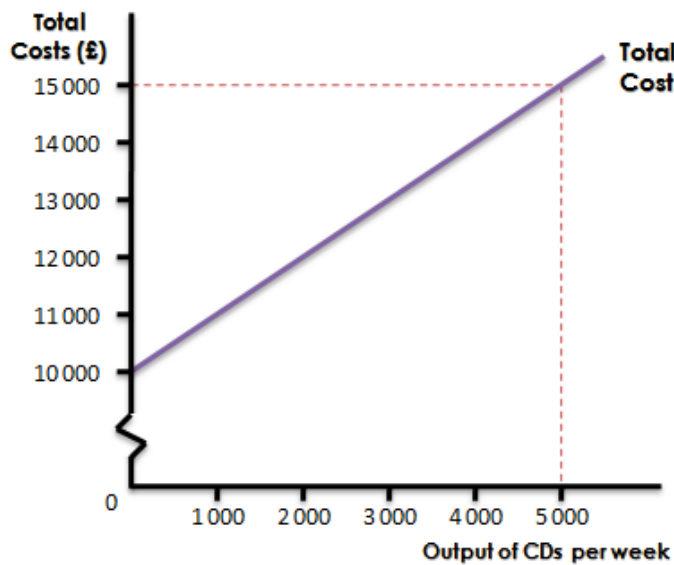
The diagram below shows a firm's marginal and average cost curves.



Which of the following statements is true for such a firm?

- A** Total costs are minimized at output K.
- B** Total costs are falling between J and K.
- C** Total costs are minimized at output L.
- D** The distance between H and I is the firm's average variable costs.
- E** Total costs are rising between J and K.

Question 6



The diagram shows the total cost function for a music company producing CDs. At an output of 5000 units, average variable cost is:

- A** £15,000.
- B** £5,000.
- C** £3.
- D** £2.
- E** £1.

Question 7

Total output of furniture	Total costs (£)		
0	1,000		
1	1,400		
2	1,700		
3	1,900		

A firm producing hand-crafted furniture faces the costs shown above. (You may use the right-hand columns to show your workings). The data illustrate that over the output range.

- A** Total variable costs exceed total fixed costs.
- B** Marginal costs increase
- C** Average costs exceed marginal costs
- D** Total variable costs decrease
- E** Average costs increase at a faster rate than marginal costs.

Question 8

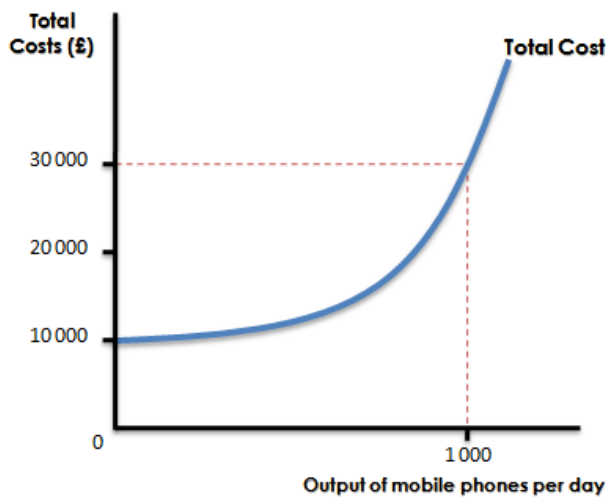
Container capacity (number of Containers a Ship can carry)	Orders for new container ships
Under 2000	264
2000-3999	520
4000-5999	904
6000+	1485
Total	3173

Source: © Financial Times, 17 December 2004

The table shows orders for new container ships by carrying capacity. It can be inferred from the data that the transport of containers by ship has :

- A** significant economies of scale.
- B** low start-up costs.
- C** constant returns to scale.
- D** increasing marginal costs.
- E** diseconomies of scale

Question 9



The diagram shows the total cost function for a company producing mobile phones. At an output of 1000 units, average fixed cost is :

- A** £30 000
- B** £10 000
- C** £30
- D** £20
- E** £10

Question 10

In the short run, a train operator might continue to offer off-peak services at reduced prices provided that the total revenue from those off-peak fares covers at least :

- A** the fixed and variable costs of these train services.
- B** the sales receipts of rival train operators.
- C** the fixed costs of these train services.
- D** the overhead costs of the network.
- E** the variable costs of these train services.