

VISHESH ACADEMY OF COMMERCE

DSS.33, OLD COURT COMPLEX, NEAR FAWARA CHOWK, HISAR

BUSINESS ECONOMICS AND BUSINESS AND COMMERCIAL KNOWLEDGE

CA FOUNDATION

TEST- (CHAPTER 3 THEORY OF PRODUCTION AND COST)

UNIT 1: THEORY OF PRODUCTION

Time: 1 Hrs.

Marks: 45

1. _____ shows the overall output generated at a given level of input:

- (a) Cost function (b) Production function
(c) Iso cost (d) Marginal rate of technical substitution

2. Isoquants are equal to-

- (a) Product Lines (b) Total utility lines
(c) Cost lines (d) Revenue lines

3. The marginal product curve is above the average product curve when the average product is-

- (a) Increasing (b) Decreasing
(c) Constant (d) None

4. Increasing returns to scale can be explained in terms of-

- (a) External and internal economies (b) External and internal diseconomies
(c) External economics and internal diseconomies (d) All of these

5. An isoquant is _____ to an ISO cost line at equilibrium point.

- (a) Convex (b) Concave
(c) Tangent (d) Perpendicular

6. At the point of inflexion, the marginal product is-

- (a) Increasing (b) Decreasing
(c) Maximum (d) Negative

7. Diminishing marginal returns implies-

- (a) Decreasing average variable costs (b) Decreasing marginal costs
(c) Increasing marginal costs (d) Decreasing average fixed costs

8. Law of variable proportion is valid when-

- (a) Only one input is fixed and all other inputs are kept variable
(b) All factors are kept constant
(c) All inputs are varied in the same proportion
(d) None of these

9. Increase in all input leading to less than proportional increase in output is called _____.

- (a) Increasing returns to scale
(b) Decreasing returns to scale
(c) Constant returns to scale

(d) Both increasing and decreasing returns to scale

10. Returns to scale will said to be in operation when quantity of:

- (a) All inputs are changed
- (b) All inputs are changed in already established proportion
- (c) All inputs are not changed
- (d) One input is changed while quantity of all other inputs remain the same

11. During 2nd stage of law of Diminishing returns-

- (a) MP and TP is maximum
- (b) MP and AP are decreasing
- (c) AP is negative
- (d) TP is negative

12. Consider the following table-

Labour	Total Output	Marginal Product
0		
1	100	100
2		80
3	240	

What is the total output, when 2 labours are employed?

- (a) 80
- (b) 100
- (c) 180
- (d) 200

13. When average product rises as a result of an increase in the quantity of variable factor, marginal product is-

- (a) Equal to average product
- (b) More than average product
- (c) Less than average product
- (d) Becomes negative

14. In Economics, entire process of _____ is nothing but creation of utilities in the form of goods and services.

- (a) Consumption
- (b) Production
- (c) Exchange
- (d) Distribution

15. According to Cobb-Douglas production function, will get----- returns to scale?

- (a) Constant
- (b) Diminishing
- (c) Increasing
- (d) Any of the above

16. What is Production in Economic-

- (a) Creation / Addition of Utility
- (b) Production of food grains
- (c) Creation of services
- (d) Manufacturing of goods

17. Functions of the entrepreneur are-

- (a) Risk bearing
- (b) Initiating a business enterprise and resource coordinating
- (c) Introducing new innovations
- (d) All of the above

18. Law of diminishing returns is applicable in-

- (a) Manufacturing industry
- (b) Agriculture
- (c) Neither (a) nor (b)
- (d) Any economic activity at a point of time

19. Labour force wants more _____.

- (a) Facility
- (b) Leisure
- (c) Benefit
- (d) All of the above

20. Production activity in the short run is analysed by-

- (a) Returns to scale
- (b) Economies of scale
- (c) Law of variable proportion
- (d) None of these

21. Increasing returns to scale occurs due to-

- (a) Economies of scale
- (b) Specialization
- (c) Indivisibility of factors
- (d) All of these

22. Law of diminishing returns is applicable in _____.

- (a) Only manufacturing industries.
- (b) Only agriculture.
- (c) Neither in agriculture nor in industries.
- (d) In all economic activities after a limit.

23. Law of increasing returns is applicable because of _____.

- (a) Indivisibility of factors
- (b) Specialization
- (c) Economies of scale
- (d) Both (a) & (b) above

24. When output decreases by 20% due to increase in inputs by 20%, this stage is called the law of _____.

- (a) Increasing returns to scale
- (b) Decreasing returns to scale
- (c) Constant returns to scale
- (d) None of the above

25. In the first stage of law of variable proportions, total product increases at the _____.

- (a) Decreasing rate
- (b) Increasing rate
- (c) Constant rate
- (d) Both (a) and (b)

26. Which function shows relationship between input and output?

- (a) Consumption function
- (b) Investment function
- (c) Production function
- (d) Cost function

27. The concept of Returns to Scale is related with-

- (a) Very short period
- (b) Short period
- (c) Long period
- (d) None of above

28. The function of an entrepreneur is-

- (a) Initiating an enterprise and resource coordination
- (b) Risk bearing
- (c) Introducing innovations
- (d) All of the above

29. Which of the following is not a characteristic of Land?

- (a) It is a free gift of nature
(b) It is a mobile factor of production
(c) It is limited in quantity
(d) It's productive power is indestructible

30. A production function is defined as the relationship between-

- (a) The quantity of physical inputs and physical output of a firm
(b) Stock of inputs and stock of output
(c) Prices of inputs and output
(d) Price and supply of a firm

31. Production activity in the short period is analyzed with the help of-

- (a) Law of variable proportion
(b) Laws of returns to scale
(c) Both (a) & (b)
(d) None of the above

32. Which of the following is the reason of the working of law of increasing returns?

- (a) Fuller utilization of fixed factors
(b) Indivisibility of the factors
(c) Greater specialization of labor
(d) All of the above

33. Innovation theory of entrepreneurship is propounded by-

- (a) Knight
(b) Schumpeter
(c) Max Weber
(d) Peter Drucker

34. In Cobb-Douglas production function, two inputs are-

- (a) Land and Labor
(b) Labour and Capital
(c) Capital and Entrepreneur
(d) Entrepreneur and Land

35. Which one of the following is not a characteristic of land?

- (a) A free gift of nature
(b) Its supply is fixed
(c) An active factor of production
(d) It has different uses

36. An Entrepreneur undertakes which one of the following functions?

- (a) Initiating a business and resource co-ordination
(b) Risk or uncertainty bearing
(c) Innovations
(d) All of the above

37. With a view to increase his production, Hariharan a manufacturer of shoes, increases all the factors of production in his unit by 100%. But at the end of the year, he finds that instead of an increase of 100%, his production has increased by only 80%. Which law of returns to scale is operating in this case?

- (a) Increasing returns to scale
(b) Decreasing returns to scale
(c) Constant returns to scale
(d) None of the above

38. Which of the following statement is true in relation to an Iso Quant Curve?

- (a) It represents those combinations of two factors of production that will give the same level of output
(b) It represents those combinations of all the factors that will give the same level of output
(c) It slopes upward to the right
(d) It can touch either axis

39. Production is defined as-

- (a) Creation of matter
(b) Creation of utility in matter
(c) Creation of infrastructural facilities
(d) None of the above

40. Diminishing marginal returns implies-

- (a) Decreasing average variable costs
(b) Decreasing marginal costs
(c) Increasing marginal costs
(d) Decreasing fixed costs

41. The conclusion drawn from Cobb-Douglas production function is that labour contributed about _____ and capital about _____ of the increase in the manufacturing production.

- (a) $3/4^{\text{th}}$, $1/4^{\text{th}}$
(b) $1/2^{\text{th}}$, $1/2^{\text{th}}$
(c) $1/4^{\text{th}}$, $3/4^{\text{th}}$
(d) None of the above

42. Iso quants are also known as-

- (a) Production possibility curves
(b) Indifference curves
(c) Production indifference curves
(d) None of the above

43. Human capital refers to-

- (a) Savings by individuals
(b) Mobilization of savings
(c) Human skills and abilities
(d) Productive investment

44. Which one of the following statements is not correct?

- (a) Land has indestructible powers
(b) Labour is mobile
(c) Capital is nature's gift
(d) Land is a passive factor

45. Which of the following is not a characteristic of labour?

- (a) It is perishable
(b) It has weak bargaining power
(c) Labour and Labour power cannot be separate
(d) Labour is not mobile

**TEST- (CHAPTER 3 THEORY OF PRODUCTION AND COST)
UNIT 1: THEORY OF PRODUCTION****Answers:**

1	2	3	4	5	6	7	8	9	10
B	A	A	A	C	C	C	A	B	B
11	12	13	14	15	16	17	18	19	20
B	C	B	B	A	A	D	A	B	C
21	22	23	24	25	26	27	28	29	30
D	D	D	D	B	C	C	D	B	A
31	32	33	34	35	36	37	38	39	40
A	D	B	B	C	D	B	A	B	C
41	42	43	44	45					
A	C	C	C	D					