

Multiple Choice

Read each question carefully. Select the correct option by circling the appropriate answer.

1. Which of the following are classified as variable costs?
 - a. Rent
 - b. Depreciation
 - c. Wages
 - d. Insurance

2. What is another name for fixed costs?
 - a. Indirect costs
 - b. Directed costs
 - c. Direct costs
 - d. Indirectly costs

3. A business has fixed costs of \$30 and total costs of \$65. What are its variable costs?
 - a. \$30
 - b. \$35
 - c. \$65
 - d. \$95

4. When a business' total cost are \$1540 it produced 43 units. Calculate its average costs.
 - a. \$35.81
 - b. \$66.22
 - c. \$1497
 - d. \$1583

5. What is another name for Variable costs?
 - a. Indirect costs
 - b. Directed costs
 - c. Direct costs
 - d. Indirectly costs

6. Which one of the following would lead to an increase in a business' variable costs?
 - a. An increase in the rate of interest charged on a bank loan
 - b. Increase in the price of raw materials
 - c. Purchase of office equipment
 - d. Increase in the rent of premises

7. Even if nothing is produced, total costs will be:
- Zero
 - Equal to fixed costs only
 - Equal to variable costs only
 - Equal to marginal + average costs
8. Which of the following is an example of indirect costs?
- Fuel
 - Insurance
 - Transport
 - Wages
9. What is marginal cost?
- The addition to total costs when one additional unit is produced
 - The cost of plant and machinery
 - The cost per unit of output
 - Fixed cost plus variable cost
10. At a factory, total fixed cost is \$2000. When 200 units of output are produced, average cost is \$18.00. What is total variable cost?
- \$10.00
 - \$1600
 - \$3600
 - \$36000
11. Calculate the marginal cost for the 7th unit if total cost at the 6th unit was \$100 and the 7th is \$106.
- \$2
 - \$3
 - \$6
 - \$8
12. Knowing the cost of production is useful for businesses because:
- It helps in price setting decisions
 - It helps in decision making
 - It is useful in measuring profit
 - All of the above

13. Fixed costs are \$4000 when 100 units are produced. When 101 units are produced, what would be the fixed costs?
- a. \$4000
 - b. \$4001
 - c. \$4100
 - d. \$5000

Use the following table to answer the questions 14-16:

# produced	Total cost
0	1000
1	1200
2	1350
3	1550

14. At which level of production is marginal cost at its lowest?
- a. 0
 - b. 1
 - c. 2
 - d. 3
15. At which level of production is average cost at its lowest?
- a. 0
 - b. 1
 - c. 2
 - d. 3
16. At which level of production is fixed cost \$1000?
- a. 0 only
 - b. 2,3
 - c. 0, 2
 - d. 0,1,2,3
17. As productivity begins to decline, what will happen to marginal and average costs?
- a. They will begin to decline
 - b. They will begin to increase
 - c. They will remain the same
 - d. They will drop to 0

18. All factors of production used in a business make up its:

- a. Fixed cost
- b. Variable cost
- c. Total cost
- d. Marginal cost

19. Which of the following is the calculation for average costs?

- a. Total cost \times units produced
- b. Total cost $-$ units produced
- c. Total cost $+$ units produced
- d. Total cost \div units produced

20. Which of the following statements are TRUE?

- a. At zero output, fixed costs equal total costs
- b. At zero output, fixed costs equal variable costs
- c. At zero output, variable costs are greater than fixed costs
- d. At zero output, variable costs is equal to marginal costs