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:
a. Zero
b. Equal to fixed costs only
c. Equal to variable costs only
d. Equal to marginal + average costs

8. Which of the following is an example of indirect costs?
a. Fuel
b. Insurance
c. Transport
d. Wages

9. What is marginal cost?
a. The addition to total costs when one additional unit is produced
b. The cost of plant and machinery
c. The cost per unit of output
d. 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?
a. $10.00
b. $1600
c. $3600
d. $36000

11. Calculate the marginal cost for the 7^th^ unit if total cost at the 6^th^ unit was $100 and the 7^th^ is $106.
a. $2
b. $3
c. $6
d. $8

12. Knowing the cost of production is useful for businesses because:
a. It helps in price setting decisions
b. It helps in decision making
c. It is useful in measuring profit
d. 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 answers 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 x units produced
b. Total cost – units produced
c. Total cost + units produced
d. Total cost ÷ 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