MICRO ECONOMICS

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Contents

- Production function with one variable input and two variable inputs – Cost minimizing input choices – Some common production functions – Cobb-Douglas and Constant elasticity of substitution production function – Returns to scale – Expansion path.

1. A production function shows the relationship between :

A. Inputs and profits

B. Inputs and output

C. Costs and revenue

D. Labour and wages

Answer : B

2.When only one input is varied keeping others constant it is known as :

A. Isoquants analysis

B. Return to scale

C. Law of variables proportions

D. Cost mimimization

Answer : C

3. Marginal product is :

A. Change in total product ~ change in input

B. Total product ~ number of inputs

C. Change in input ~ total product

D. None

Answer : A

4. The total product curve first increases:

A. Negative rate

B. Constant rate

C. Increasing rate

D. Decreasing rate

Answer : C

5. In a two input production function, isoquants represent :

A. Equal cost combinations

B. Equal output combinations

C. Equal input ratios

D. Equal profits

Answer : B

6. If MP = 0 ,total products is :

A. Increasing

B. Constant

C. Decreasing

D. Maximum

Answer : D

7. The point where MP =AP occurs when ;

A. Ap is rising

B. Ap is maximum

C. Ap is zero

D. Ap is constant

Answer : B

8. Return to scale refers to :

A. Long run relation between inputs and output

B. Short run production

C. Law of diminishing returns

D. None

Answer : A

9. An isoquants is convex to origin due to :

A. Increasing MRTS

B. Constant MRTS

C. Diminishing MRTS

D. None

Answer : C

10 . If labour and capital are perfect substitutes, isoquants will be :

A. Convex

B. L-shaped

C. Circular

D. Linear

Answer : D

11. Cost minimizing occurs when :

A. MRTS < Ratio of input prices

B. MRTS > Ratio of input prices

C. MRTS = Ratio of input prices

D. Output is maximum

Answer : C

12. The condition for equilibrium in input choice is :

A. MPL /MPK = w/r

B. MPL /MPK =r/w

C. MPL * w = MPK *r

D. None

Answer :A

13. The iso –cost line represents :

A. Equal cost combinations of inputs

B. Equal output combinations

C. Constant returns

D. Equal profits

Answer : A

14. The slope of the iso-cost line :

A. -w/r

B. -r/w

C. w *r

D. None

Answer : A

15. If the price of labour fails , the iso-cost line :

A. Shifts upward

B. Becomes steeper

C. Rotates outward

D. Rotates inward

Answer : C

16. The least –cost combination occurs where:

A. Isoquant cuts iso-cost line

B. Isoquant touches the iso-cost line

C. Isoquant above iso- cost

D. None

Answer : B

17. The expansion path shows :

A. Optimal input combinations for different output levels

B. Constant output

C. Constant cost

D. None

Answer : A

18. In the long run , firms choose input combinations that :

A. Maximize labour

B. Maximize capital

C. Minimize cost for each level of output

D. Reduce profit

Answer : C

19. If MRTS > w/r the firm should :

A. Use more capital

B. Use more labour

C. Use less output

D. None

Answer : B

20. Cost minimization ensures :

A. Efficient use of inputs

B. Inefficient resource allocation

C. Increased input prices

D. Decreased output

Answer : A

21. The cobb – Douglas production function is usually written as :

A. $Q = AL^a K^b$

B. $Q = a + bL + cK$

C. $Q = l + K$

D. $Q = LK^2$

Answer : A

22. In cobb-Douglas , constant return to scale occur when :

A. $a + b > 1$

B. $a + b < 1$

C. $a = b$

D. $a + b = 1$

Answer : D

23. The Leontief production function assumes :

A. Perfect substitutes

B. Perfect complements

C. Diminishing MRTS

D. Increasing returns

Answer : B

24 . For perfect substitutes , production functions is :

A. Q = aL+b K

B. Q = min (al ,bk)

C. Q = l*k

D. None

Answer : A

25. CES stands for :

A. Constant economic scale

B. Constant economic substitution

C. Constant elasticity substitution

D. None

Answer: C

26. In cobb- Douglas ,elasticity of substitution is :

A. 0

B. 0.5

C. 2

D. 1

Answer : D

27. In Leontief function , isoquants are :

A. L-shaped

B. Linear

C. Convex

D. Circular

Answer : A

28. If Q = K *L, then return to scale are :

A. Increasing

B. Decreasing

C. Constant

D. None

Answer : C

29. CES production function allows :

A. Different elasticities of substitution

B. Only unit elasticity

C. No substitution

D. None

Answer : A

30. Cobb –Douglas is widely used because it :

A. Is complex

B. Has fixed proportions

C. Ignores technology

D. Is simple and fits data well

Answer : D

THANK YOU