

Principles of Economics (English Medium) - ICOM Part 1 Economics English Medium Chapter 8 Short Questions Preparation

Q1. Define average total cost (ATC) / average cost (AC).

Ans 1: If we divide total cost (TC) by unit of output, we get ATC. It is the cost per unit of output. Average cost can be calculated as:

AC = TC/Q OR ATC = AFC + AVC

Q2. Define monopoly.

Ans 1: Monopoly is a market structure in which a single seller sells a product, which has no close substitute and there are barriers to entry for new firms. Wapda, Railway and Wasa are the examples of monopoly.

Q3. Define average revenue.

Ans 1: Average revenue is obtained by dividing TR with units of output

It can be calculated as:

AR = TR/Q

Q4. Define fixed cost (FC).

Ans 1: Fixed cost is the cost which is not affected by the change in level of output. It does not change in short run. It includes interest, depreciation, salaries of permanent staff, rent, etc. It is also known as supplementary cost. Mathematically it can be calculated as:

F.C = TC - V.C.

Q5. What is perfect competition (PC)?

Ans 1: Perfect competition is a market structure which has the following conditions:

- i. There are very large number of buyers and sellers in the market.
- ii. The product of all the firms is homoheneous.
- iii. Freedom of entry and exit of firms.
- iv. There is perfect mobility of factors.
- v. There is perfect knowledge about market.
- Q6. Why long run average cost curve is flatter?
 - Ans 1: Long-run average cost curve is flatter due to economics of large scale of production.
- Q7. What is long period of time?

Ans 1: It is time period when a firm can change its size and its capacity.

Q8. Define total revenue.

Ans 1: Total revenue is the total amount is received by selling a specific quantity of output.

Q9. Define opportunity cost.

Ans 1: It means that minimum reward which a firm must pay to shift a factor of production from on use to another. For example a bank manager gets Rs. 100,000 per month for his services. If another bank wants to hire his services it has to pay minimum salary Rs. 100,000 which is called "Opportunity Cost".

Q10. Define marginal cost (MC).

Ans 1: The cost which a firm faces against the production of an addition unit of its output, produced at a given period of time.