

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

Q1. Define explicit cost.

**Ans 1:** Expenditures made by the firm for the outsider hired resources are known as explicit cost. Expenditures made for the purchase of labour services, raw material, fuel, transportation, power resources and taxes are include in explicit costs.

Q2. Describe the relationship between AC and MC.

**Ans 1:** Following are the relationship between AC and MC.

1. When AC decreases MC is less than AC.
2. When AC is at minimum level, Mc is equal to AC.
3. When AC increases MC is more than AC.

Q3. Define average variable cost (AVC).

**Ans 1:** If we divide total variable cost by units of output, we get AVC.

$$AVC = VC / Q$$

Q4. Define revenues.

**Ans 1:** Revenue means total income received by a firm from the sale of certain commodities at different prices.

Q5. Define average fixed cost (AFC).

**Ans 1:** If we divide fixed cost (F.C) by units of output we get AFC

$$AFC = FC / Q$$

Q6. 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".

Q7. Define marginal revenue (MR).

**Ans 1:** Marginal revenue is the rate of change in total revenue due to one unit change in quantity sold. Mathematically it can be calculated as

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Q8. What is total cost (TC) ?

**Ans 1:** Total cost is the sum of fixed cost and variable cost.  
Mathematically it can be calculated as:  
 $TC = F.C. + V.C.$

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Q9. Write the names of three kinds of cost of production.

**Ans 1:** 1. Explicit cost  
2. Implicit cost  
3. Opportunity cost

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Q10. Define implicit cost.

**Ans 1:** These are the expenditures made on self owned and self employed resources by the firm, e.g. implicit costs include rent of own building, wages of firm's owners, interest on capital etc.

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