SET-1

Fill in the Blanks

Choose appropriate word/term and fill in the blank:

1. Producer's equilibrium is never struck when MC is _____. (falling/rising)
2. Sub-normal profits are occurred when TR is _____ than TC. (greater/less)
3. In case of break-even point, a firm covers _____. (only variable cost/both fixed and variable cost)
4. AR < AVC is a point of _____. (continuation of production/discontinuation of production)
5. _____ is equal to TR – TVC. (Gross profit/Net profit)
6. Accounting Profit = TR – _____. (Implicit Cost/Explicit Cost)
7. MC is _____ than MR before the point of producer equilibrium. (greater/less)

SET-2

Multiple Choice

Choose the correct option:

1. **Profits are maximised only when:**
   (*a*) MR = MC
   (*b*) MR is falling
   (*c*) MC is rising
   (*d*) both (*a*) and (*c*)
2. **In the context of producer's equilibrium, which one is incorrect?**
   (*a*) MR = MC
   (*b*) MC is rising
   (*c*) Cost maximisation
   (*d*) Profit maximisation
3. **Minimum return that the producer expects from his capital invested in the business is called:**
   (*a*) normal profit
   (*b*) abnormal profit
   (*c*) sub-normal profit
   (*d*) all of these
4. **Difference between TR and TC is maximum when _____.**
   (*a*) AR = MR
   (*b*) MR = AC
   (*c*) AC = MC
   (*d*) MR = MC
5. **Normal profit is a situation when:**
   (*a*) TR > TC
   (*b*) TR < TC
   (*c*) TR = TC
   (*d*) AR < AC
6. **TR – TVC is equal to:**
   (*a*) gross profit
   (*b*) net profit
   (*c*) normal profit
   (*d*) abnormal profit

7. **Net Profit =**
(*a*) TR – TFC
(*b*) TR – TVC
(*c*) TR – TFC – TVC
(*d*) None of these

8. **TR < TC is a situation of _____.**
(*a*) normal profit
(*b*) abnormal profit
(*c*) losses
(*d*) none of these

9. **If the firm increases its output even after MR = MC (when MC is rising), then:**
(*a*) MR becomes greater than MC
(*b*) MC becomes greater than MR
(*c*) MR stays equal to MC
(*d*) None of these

10. **AR = AVC at:**
(*a*) break-even point
(*b*) shut-down point
(*c*) discontinuation point
(*d*) none of these

11. **Production continues as long as _____ is covered.**
(*a*) fixed cost
(*b*) variable cost
(*c*) average cost
(*d*) marginal cost

12. **Producer's equilibrium refers to a stage of output at which:**
(*a*) the firm earns maximum profits
(*b*) the firm has no inclination of changing the level of output
(*c*) the firm suffers minimum losses
(*d*) all of these

13. **In case MR < MC, by cutting output, profit would:**
(*a*) increase
(*b*) decrease
(*c*) remain constant
(*d*) none of these

14. **The producer strikes his equilibrium only when rising MC is equal to:**
(*a*) MR
(*b*) AR
(*c*) TR
(*d*) none of these

15. **If TR = TC = ₹10, it is a situation of:**
(*a*) abnormal profit
(*b*) normal profit
(*c*) break-even point
(*d*) both (*b*) and (*c*)

SET-3

True or False

State whether the following statements are True or False:

1. MR = MC is the only condition of producer equilibrium. (True/False)
2. A rational-profit maximising producer stops at stage III of production. (True/False)
3. A firm can never earn sub-normal profits. (True/False)
4. At the point of producer equilibrium, MC is falling. (True/False)
5. Normal profit is a part of total cost. (True/False)
6. Production is discontinued when AR = AVC. (True/False)
7. Point of equilibrium does not always imply maximisation of profit. (True/False)

SET-4

True-False Alternatives

In the following questions (1-5), two statements are given. Read the statements carefully and choose the correct alternative among those given below:

Alternatives:

(a) Both the statements are true

(b) Both the statements are false

(c) Statement 1 is true and Statement 2 is false

(d) Statement 2 is true and Statement 1 is false

1. Statement 1 : Maximisation of profits is the major goal of producers.
   Statement 2 : Average revenue is equal to marginal revenue in situations when price remains constant at all levels of output.
2. Statement 1 : It is profitable for a producer to produce more as long as MC is greater than MR.
   Statement 2 : MR is equal to MC at the point of producer's equilibrium.
3. Statement 1 : Profit is the difference between total revenue and total cost.
   Statement 2 : A producer is said to be in equilibrium when he wishes to expand his production.
4. Statement 1 : Excess of marginal revenue over marginal cost is always better than equality between them in order to reach equilibrium.
   Statement 2 : Marginal cost should be falling at the point of producer's equilibrium.
5. Statement 1 : In order to maximise profit, AR should at least be equal to AC.
   Statement 2 : Any departure from the state of equilibrium would only mean that the profits will not be maximised.

SET-5

Choose the Correct Pair of Statements/Identify the Correct Sequence of Alternatives

1. **From the set of statements given in Column I and Column II, choose the correct pair of statements:**

Column I	Column II
A. Economic profit	(*i*) TR – Implicit cost
B. Break-even point	(*ii*) P < AC
C. MR > MC	(*iii*) By increasing output, profit would rise
D. At equilibrium point	(*iv*) MC should be falling

Alternatives:

(*a*) A—(*i*) (*b*) B—(*ii*)

(*c*) C—(*iii*) (*d*) D—(*iv*)

2. **Identify the correct sequence of alternatives given in Column II by matching them with respective items in Column I:**

Column I	Column II
A. Net profit	(*i*) A necessary condition of producer's equilibrium
B. Producer's equilibrium	(*ii*) TR – TC
C. MR = MC	(*iii*) AR = AC
D. Normal profits	(*iv*) A situation of profit maximisation

Alternatives:

(*a*) A—(*iv*), B—(*i*), C—(*ii*), D—(*iii*) (*b*) A—(*ii*), B—(*iv*), C—(*i*), D—(*iii*)

(*c*) A—(*iv*), B—(*iii*), C—(*ii*), D—(*i*) (*d*) A—(*iii*), B—(*i*), C—(*iv*), D—(*ii*)

3. **Identify the correct sequence of alternatives given in Column II by matching them with respective items in Column I:**

Column I	Column II
A. Goal of the producer	(*i*) $\frac{TR}{Q} < \frac{TC}{Q}$
B. Gross profit	(*ii*) TR – Explicit costs
C. Sub-normal profits	(*iii*) TR – TVC
D. Accounting profits	(*iv*) Maximise the difference between revenue and cost

Alternatives:

(*a*) A—(*iv*), B—(*iii*), C—(*i*), D—(*ii*) (*b*) A—(*ii*), B—(*i*), C—(*iv*), D—(*iii*)

(*c*) A—(*ii*), B—(*iii*), C—(*iv*), D—(*i*) (*d*) A—(*iii*), B—(*i*), C—(*ii*), D—(*iv*)

SET-6

Assertion and Reasoning

In the following questions (1-5), a statement of Assertion (A) is followed by a statement of Reason (R). Choose the correct alternative among those given below:

Alternatives:

(*a*) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)

(*b*) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)

(*c*) Assertion (A) is true but Reason (R) is false

(*d*) Assertion (A) is false but Reason (R) is true

1. **Assertion (A)** : A producer earns abnormal profits when AR > AC.
   Reason (R) : A producer enjoys maximum profit when the gap between AR and TC is the maximum.
2. **Assertion (A)** : Producer's equilibrium does not get disturbed when a unit more than the equilibrium level of output is produced.
   Reason (R) : The difference between TR and TVC shrinks as more than equilibrium level of output is produced.
3. **Assertion (A)** : Price is equal to AC at break-even point.
   Reason (R) : Break-even point is a no profit, no loss situation.
4. **Assertion (A)** : AR is greater than or equal to AVC at the point of equilibrium.
   Reason (R) : It would be irrational to produce if the producer is not able to cover even the variable cost of production.
5. **Assertion (A)** : The gap between TR and TC is the maximum at the point of equilibrium.
   Reason (R) : A rational producer targets maximisation of profits and minimisation of costs.

ANSWERS

SET-1

1. falling **2.** less **3.** both fixed and variable cost **4.** discontinuation of production
5. Gross profit **6.** Explicit Cost **7.** less

SET-2

1. (*d*) **2.** (*c*) **3.** (*a*) **4.** (*d*) **5.** (*c*) **6.** (*a*) **7.** (*c*) **8.** (*c*) **9.** (*b*) **10.** (*b*)
11. (*b*) **12.** (*d*) **13.** (*a*) **14.** (*a*) **15.** (*d*)

SET-3

1. False **2.** False **3.** False **4.** False **5.** True **6.** False **7.** True

SET-4

1. (*a*) **2.** (*d*) **3.** (*c*) **4.** (*b*) **5.** (*d*)

SET-5

1. (*c*) **2.** (*b*) **3.** (*a*)

SET-6

1. (*c*) **2.** (*d*) **3.** (*a*) **4.** (*b*) **5.** (*b*)