

#### [Frequently Asked Questions]

**Cost: Short run & Long run** 

Subject:

**Business Economics** 

**Course:** 

Paper No. & Title:

Unit No. & Title:

**Lecture No. & Title:** 

B.A., 1st Semester, Undergraduate

Paper – 101 Microeconomics - I

Unit – 4 Cost

Lecture – 1 Cost: Short run & Long run

#### **Frequently Asked Questions**

**Q1.** Define opportunity cost.

**A1.** Opportunity forgone for gaining something, as a next best alternative is opportunity cost.

For example: A farmer producing potato can also produce carrot with the same resources, therefore the opportunity cost of producing 10 kgs of potatoes is same as the amount of output of carrots sacrificed.

#### Q2. What is marginal cost?

**A2.** Costs, which are addition, made to the total cost by production of an additional unit of output.

## Q3. What is the shape of average fixed cost curve? And why?

**A3.** Shape of average fixed cost curve is a horizontal straight line. Because, it remain unchanged with the changing output.

### Q4. Distinguish between accounting cost and economic cost.

**A4.** Accounting cost is explicit cost ie. cost which can be measured in terms of money and time and economic cost is both implicit cost and explicit cos. Where implicit cost means the hidden cost , or owners capital and opportunity cost.

### Q5. What do you mean by short run supply function?

**A5.** A firm's short-run supply function is the increasing part of its short run marginal cost curve above the minimum of its average variable cost.

#### **Q6.** What are different components of total cost?

**A6.** Total cost includes both Total fixed cost and total variable cost.

## Q7. Average cost curve and marginal cost curves are related. Explain.

**A7.** If MC < AVC, the AVC declines, If MC = AVC, the AVC is at its minimum, If MC > AVC, the AVC is rising. Exactly the same relationship holds between MC and ATC.

# Q8. What do you mean by economies of scale and diseconomies of scale?

**A8.** Reduction in cost of production, due to increase in size of plant is called economies of scale and increase in cost of production due to expansion of firm is called diseconomies of scale.

#### Q9. What is cost function? What are its determinants?

**A9.** C = f(O,S,T,U,P...) Where, C = refers to cost, O = refers to level of output, S = means size of the plant, T = refers to nature of technology, P = denotes the price of inputs.

## Q10. Why a long-run average cost curve is called an envelop curve?

**A10.** Because it envelopes numerous SACs together in a single curve. As all short run average cost curves or plant curves are tangent to long run average cost curve.

#### Q11. What is firm's profit function?

**A11.** Firm's **profit function** is  $\Pi(y) = \operatorname{TR}(y) - \operatorname{TC}(y) = py - \operatorname{TC}(y)$ , Where, TC is either the firm's short run cost function or its long run cost function, depending on whether we are interested in short run or long run supply.