



3. A firm's profit maximizing output is 100 units and sells at a price of \$50. Currently it divides its output between 2 plants, A and B. The marginal cost in plant A and B are \$40 and \$25 respectively. What can this firm do to minimize its cost?
- (A) Increase the use of plant B and reduce the use of plant A until the marginal cost in each plant equals \$50
 - (B) Increase the use of plant B and reduces the use of plant A until the marginal cost in each plant is equal
 - (C) Stop using plant A and use plant B only
 - (D) No change in the allocation of output between plants since it is already maximizing profits



4. Which conditions define productive efficiency?
- (A) Firms are producing at the profit maximizing output
 - (B) Output of a good can only be increased by reducing that of another good
 - (C) There is no further opportunities of substituting capital for labor
 - (D) It is no longer possible to make someone better off without making someone else worse off



5. A firm's fixed costs amount to \$5000. The table below shows the total costs at different level of outputs

Output (units)	Total cost (\$)
10	10,000
20	13,000
30	14,000
40	17,000
50	25,000

If the firm's average costs curve is U-shaped, within which one of the following ranges of output will average variable cost be minimized?

- (A) 10-20 units
 - (B) 20-30 units
 - (C) 30-40 units
 - (D) 40-50 units
6. Assuming constant factor prices, when a firm increases all its factor of production by 10%, it experiences a 10% increase in its total product. Then it increases its factors of production by 50% and it finds that its total product also increases by 50%. What does this illustrate?
- (A) Constant cost industry
 - (B) Decreasing returns to scale
 - (C) External diseconomies to scale
 - (D) The law of diminishing returns

