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27 September 2010 Total Possible Marks: 20



## Short Run Production and Cost and Business Growth

A set of short answer questions to test your understanding of this topic

- 1. A business operating in the short run sees a downward shift in their marginal cost curve. A possible cause of this change in marginal costs might be
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- A. A fall in the rate of depreciation of capital equipment due to age
  - B. A fall in the level of corporation tax (a tax on business profits)
  - C. A fall in the price of imported raw materials and components
  - D. A fall in the annual rental costs for the company's head office
  - E. A fall in the interest rate on business loans to finance capital investment
- 2. A change in a firm's marginal costs has no effect on their fixed costs of production
- 1
- A. True
  - B. False
- 3. Which of the following statements must be true when a firm's average total costs and average variable costs are identical?
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- A. Total fixed costs of production are zero
  - B. The firm will shut down because it will always make a loss
  - C. Marginal costs are constant but positive
  - D. Marginal costs are zero
- 4. Suppose the short-run total cost function for a business is given by the formula  $TC = 250 + 8Q$ . Where TC is total cost and Q is the level of output
- 1
- What is the formula for calculating average fixed cost?
- A.  $8/Q$
  - B.  $250-Q$
  - C. 250
  - D.  $250/Q$
- 5. Marginal cost always cuts the average total cost curve at the minimum of the marginal cost curve
- 1
- A. True
  - B. False
- 6. If the marginal cost of production is positive and falling
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- A. Total cost is falling at a falling rate
  - B. Total cost is increasing at an increasing rate
  - C. Total cost is increasing at a falling rate
  - D. Total cost is falling

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- 7. The average total cost of producing 100 cars is £5000 per car.  
2  
If production increased from 100 cars to 101 cars, the production of the additional car reduces the average fixed costs by £10.00 and the average variable costs by £10.00
- What is the marginal cost of this additional car?
- £2980**
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- 8. The costs that we cannot avoid whether or not an action is taken, are called  
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- A. Sunk costs
  - B. Marginal costs
  - C. Total costs of the action
  - D. Average costs
  - E. Opportunity costs
- 9. As soon as diminishing returns to the variable factor start to occur, the average product will start to fall  
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- A. True
  - B. False
- 10. The **[A]short run** is a period of time when there is at least one fixed factor of production. This is usually the capital input such as plant and machinery and the stock of building and technology  
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- 11. You run a centre for handling customer service calls. You have an incentive to substitute new capital for labour if, all other things being equal, the  
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- A. price of labour increases
  - B. price of labour decreases
  - C. marginal product of labour increases
  - D. price of capital increases
- 12. **[A]Conglomerate** integration is where a firm buys another firm in an unrelated industry. This diversification may reduce risk to changes in economic conditions.  
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- 13. All of the following are benefits for firms participating in horizontal mergers EXCEPT which ONE?  
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- A. Sharing of technical knowledge.
  - B. Economies of scale.
  - C. Control over sources of supply of inputs.
  - D. Reduction of competition.

— 14. Match the example given with the particular type of business growth strategy  
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|--------------------------------------------------------------------------------------------------------------------------------------|-------------------------|
| A. <u>B</u> Easy Group launches a new business offering a low price pizza delivery service                                           | A. Internal expansion   |
| B. <u>A</u> Robert Wiseman Dairies opens a new £45m milk processing plant designed to expand capacity to meet rising demand for milk | B. Economy of scope     |
| C. <u>D</u> Pepsi buys a bottling plant in Mexico                                                                                    | C. Joint Venture        |
| D. <u>E</u> News International acquires the Wall Street Journal                                                                      | D. Vertical integration |
| E. <u>C</u> Nokia joins up with Google to provide a new mobile phone with fast internet search facilities                            | E. Lateral Integration  |

— 15. "Broadcaster BSkyB has struck a deal to buy television set-top box maker Amstrad for about  
1 £125m" (BBC news, August 2007). This is an example of

vertical integration

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— 16. Boots heading for China  
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Pharmacy group Alliance Boots is to form a business agreement with Guangzhou Pharmaceutical (GP), the third largest pharmaceutical wholesaler in China. GP is the leading wholesaler in its home province of Guangdong where it has a market share of about 16%. It also has a 3% share of the national market.

This news story is an example of a

Joint Venture

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— 17. "Saga, which sells holidays and other products to the over-50s, is to merge with motoring giant AA  
1 in a deal valuing the combined firm at £6.15bn."

(Source: BBC news, June 2007)

This is an example of

lateral integration

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— 18. The University of Paisley and Bell College have formed Scotland's largest modern university in a  
1 £21.2m merger.

(Source: BBC news, August 2007).

This is an example of

Horizontal integration

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