

Description :#1.)Table 13-14 Listed in the table are the long-run total costs for three different firms.

Quantity 1 2 3 4 5

Firm A 100 100 100 100 100

Firm B 100 200 300 400 500

Firm C 100 300 600 1,000 1,500

Refer to Table 13-14. Which firm is experiencing diseconomies of scale?

- A) Firm A only
- B) Firm B only
- C) Firm C only
- D) Firm A and Firm B only

Answer:

A) Firm C only

Because in this case we have a rapid increase in costs as the number of units produced

#2.) Suppose that a firm has only one variable input, labor, and firm output is zero when labor is zero. When the firm hires 6 workers it produces 90 units of output. Fixed cost of production are \$6 and the variable cost per unit of labor is \$10. The marginal product of the seventh unit of labor is 4. Given this information, what is the total cost of production when the firm hires 7 workers?

- A) \$66
- B) \$76
- C) \$906
- D) \$946

Answer:

b) \$76

$$TC = \$6 + \$10 * 7 = \$76$$