

Chapter 6 – Cost

Question 1

What is Cost?

Ans: Cost is the sum total of explicit and implicit cost. Cost in economics includes actual expenditure on inputs (i.e. explicit cost) and the computed value of the inputs supplied by the owners (i.e. implicit cost).

Question 2

What is the Opportunity cost?

Ans: Opportunity cost is the cost of the next best alternative foregone.

Question 3

Define Total Variable Cost (TVC) or Variable Cost (VC).

Ans: Variable costs refer to those costs which vary directly with the level of output.

Question 4

What is the Average Variable Cost (AVC)?

Ans: Average Variable Cost (AVC) refers to the per unit variable cost of production. It is calculated by dividing TVC by total output.

$$AVC = TVC/Q$$

Question 5

What is Marginal Cost?

Ans: Marginal cost refers to addition to the total cost when one or more unit of output is produced.