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- 1. What is the difference between diminishing returns and decreasing returns to scale?
- 2. Explain the relationship between marginal cost and average total cost.
- 3. Explain the concepts, producer surplus, economic profit and economic rent.
- 4. Why will a firm in a perfectly competitive industry choose not to charge a price either above or below the market price?
- 5. The following diagram shows demand and cost curves of a firm operating in a perfectly competitive market in the short run.



- (a) Calculate the profit earned by the firm at the market price of Rs.160.
- (b) What is the shut down price of the firm?