



MULTIPLE CHOICE: Choose the best answer from the choices given.

The EOQ formula is a simple formula best applied in situations where demand, ordering, and holding costs are known and constant overtime.

The formula for EOQ is:

$$EOQ = \sqrt{\frac{2DS}{H}}$$

Where:

EOQ= Economic Order Quantity

D=Demand in units per time period (typically on an annual basis)

S=Order cost (a fixed cost per order)

H=Holding costs (per unit, per time period)

1. An assumption of EOQ is:

- A. Demand is variable.
- B. Demand is unknown.
- C. An item is produced continuously.
- D. An item is purchased in lots or batches.

2. Suppose the EOQ model is in use. Which of the following would typically cause the EOQ order quantity to decrease?

- A. an increase in ordering cost
- B. an increase in demand
- C. an increase in holding cost
- D. an increase in safety stock

3. What is the objective of the economic order quantity (EOQ) model for inventory?

- A. To minimize order costs or carrying costs, whichever are higher.
- B. To minimize order costs or carrying costs and maximize the rate of inventory turnover.
- C. To minimize the total cost
- D. To order sufficient quantity to certainly meet the next period's demand

4. A retail clothing shop carries a line of men's jeans, and the shop sells 1,000 pairs of jeans each year. It costs the company \$5 per year to hold a pair of jeans in inventory, and the fixed cost to place an order is \$200.

- A. 267 pairs of jeans
- B. 30 pairs of jeans
- C. 283 pairs of jeans
- D. 2404 pairs of jeans

