

3.5 Profit Maximization

Name: _____ Class: _____ Date: _____

Total: 9 marks**KEY WORDS** marginal revenue 边际收益 • economic profit 经济利润 • marginal cost 边际成本

Objective

Build the skills to answer exam questions on **profit maximization**.

You must be able to:

- calculate **total**, **average**, and **marginal revenue** 边际收益
- state the **profit-maximizing rule**: produce where **marginal revenue equals marginal cost**
- explain why $MR = MC$ maximizes profit or minimizes loss
- calculate economic profit at the profit-maximizing quantity using P and ATC

1 Worked examples

Study these first. Each one shows the method for a question type used later.

■ The profit-maximizing rule

Produce the quantity where $MR = MC$. Below it, an extra unit adds more revenue than cost (produce it); above it, the reverse.

■ Economic profit

$$\text{profit} = (P - ATC) \times Q.$$

A positive $(P - ATC)$ means economic profit; a negative one means a loss.

2 Practice

2.1 State the profit-maximizing rule.

[1]

2.2 A firm sells at $P = \$12$ and produces $Q = 100$ where $ATC = \$9$. Find its economic profit. [2]

2.3 State why producing where $MR = MC$ maximizes profit. [1]

3 Exam-style questions

3.1 A firm maximizes profit where [1]

- | | |
|---|---|
| A | B |
| C | D |
- A** $MR > MC$
B $MR = MC$
C $MR < MC$
D the price is highest

3.2 Economic profit per unit is [1]

- | | |
|---|---|
| A | B |
| C | D |
- A** $P - MC$
B $P - ATC$
C $P - AVC$
D $MR - AR$

3.3 A firm produces where $MR = MC$ at $Q = 50$, $P = \$20$, and $ATC = \$14$.

(a) Find the economic profit per unit. [1]

(b) Find the total economic profit. [2]