

3.6 Firms' costs, revenue and objectives

Name: _____ Class: _____ Date: _____

Total: 16 marks

KEY WORDS total cost • revenue • profit • total revenue
• variable costs

Objective

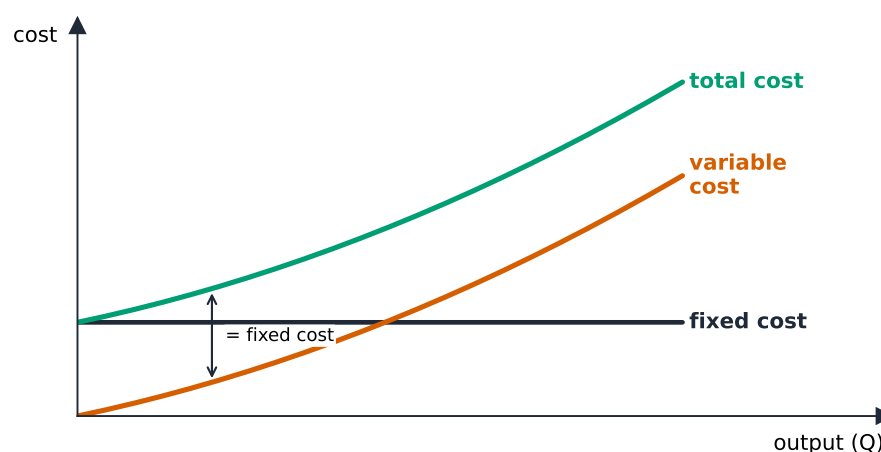
Build the skills to answer exam questions on **firms' costs, revenue and objectives**,
– **fixed and variable costs**, total and average
cost, **revenue and profit**, and firms' **objectives**.

You must be able to:

- distinguish fixed from variable costs and calculate total/average cost
- calculate total revenue and profit
- explain the different objectives of firms

1 Key knowledge and worked examples

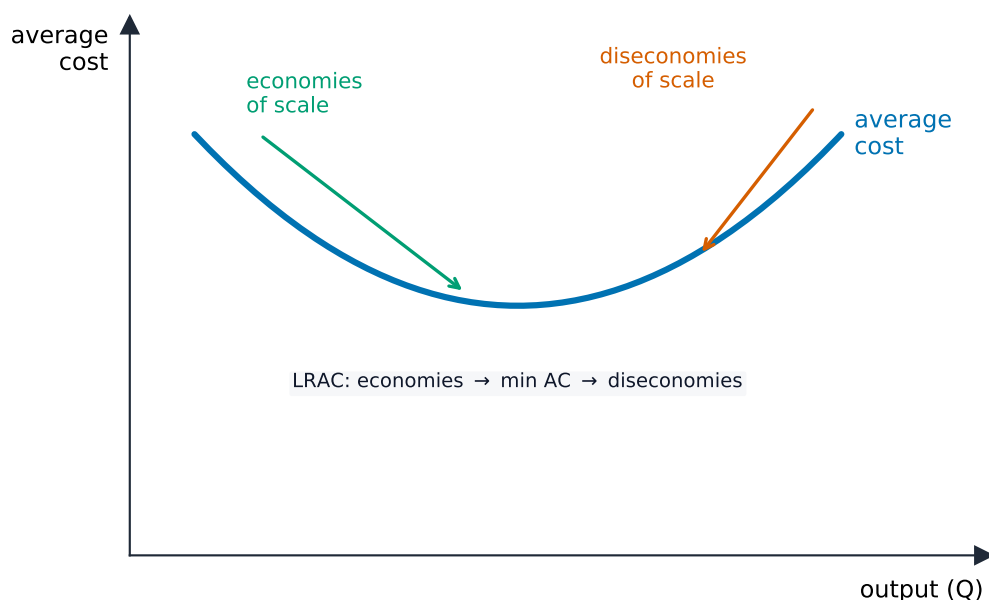
■ Costs, revenue and profit



$$TC = FC + VC \quad \cdot \quad \text{gap between } TC \text{ and } VC \text{ is } FC$$

Profit is what is left after costs

- **Fixed costs** : do not change with output (rent). **Variable costs** : change with output (materials).
- **Total cost** = fixed + variable. **Average cost** = total cost $\div$ output.
- **Total revenue** = price $\times$ quantity. **Profit** = total revenue – total cost.
- **Objectives:** profit, **survival** , **growth** , social objectives.



Average cost falls then rises as output grows – the scale picture behind profit

Answer shapes: K + App + An + Ev (a justified judgement, for discuss questions).

2 Practice

2.1 State the difference between a *fixed* and a *variable* cost. [2]

2.2 A firm sells 500 units at \$8 each. Calculate its total revenue. [2]

2.3 State the formula for *profit*. [1]

3 Exam-style questions

3.1 A firm has total revenue of \$10,000 and total cost of \$7,000. Its profit is: [1]

- ☐ **A** \$3,000
B \$7,000
C \$10,000
D \$17,000

3.2 Explain why a new firm might aim for **survival** rather than maximum profit. [4]

3.3 Analyse how a firm could increase its profit. [6]

Solutions

IGCSE Economics answers are marked by **level of response**: award **K** knowledge, **App** application, **An** analysis and **Ev** a justified judgement.

Each answer shows the steps, then the **result**.

2.1

- a **fixed cost** does not change with output (rent); a **variable cost** changes with output (materials) (K)

2.2

- total revenue = price $\times$ quantity

$$500 \times \$8 = \$4000$$

(K)

2.3

- **profit** = total revenue – total cost (K)

3.1 A

- profit = \$10,000 – \$7,000 = **\$3000** (K)
- B is total cost; C is total revenue; D added the two

3.2

- a new firm is still building customers and may make **losses** at first (K)
- it has little cash and many rivals, so its first aim is to **stay open** (An)
- once established, it can aim for profit and growth (An)

3.3

- profit = revenue – cost, so raise **revenue** (sell more, or raise the price if demand is inelastic) **or** cut **costs** (K)
- raising the price too far may lose sales if demand is elastic; cutting costs too far may harm quality (An)
- the best route **depends on the market** (An)