1.10 Revenue, Profit and the Profit-Maximising Level of Output: 10-minute Pack

Total Marks

AQA 7136 · Calculators not allowed · about 10 minutes

Name: _____ Date: ____ / ____ / _____

Answer all questions. Full sentences required for extended answers and explanation questions. No calculator allowed. Show simple working for calculations.

1 Explain briefly one reason why a firm might decide NOT to produce at the short-run profit-maximising output (MC = MR) even if that output would give higher profit, in a generic short-run context.

(Total for Question 1 is 1 mark)

2 Define average revenue for a firm and explain its relationship to price in a generic selling situation.

(Total for Question 2 is 1 mark)

3 Define marginal revenue for a firm, using the change-in concept in a generic market context.

(Total for Question 3 is 1 mark)

4 Numerical revenue schedule for a generic firm. The firm faces the following price schedule: Output (units) Q = 0,1,2,3,4,5. Price per unit P = 0,10,9,8,6,3 respectively. Calculate for each output level the firm's total revenue TR, average revenue AR, and marginal revenue MR. Show workings. Context: simple arithmetic only, no calculator.

(Total for Question 4 is 5 marks)

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Mark scheme · 1.10 Revenue, Profit and the Profit-Maximising Level of Output: 10-minute Pack

Question 1

one valid reason, for example capacity constraints, short-term liquidity problems, contractual obligations, regulatory limits, or managerial objectives such as revenue or market share targets	**B1**

Answer: For example, the firm may lack the short-run capacity to expand to the MC = MR output, or it may face cash flow constraints that make producing at that level unfeasible.

Question 2

average revenue is total revenue divided by quantity and, for a firm selling each unit at the same price, equals the price	**B1**

Answer: Average revenue = total revenue / quantity; when price per unit is constant AR = price.

Question 3

marginal revenue is the change in total revenue from selling one more unit of output	**B1**

Answer: Marginal revenue is the change in total revenue from selling one additional unit.

Question 4

TR values: Q0=0, Q1=10, Q2=18, Q3=24, Q4=24, Q5=15	**M1**
AR values: Q1=10.0, Q2=9.0, Q3=8.0, Q4=6.0, Q5=3.0 (and Q0 undefined or 0)	**M1**
MR values calculated as change in TR: MR1=10, MR2=8, MR3=6, MR4=0, MR5=-9	**M1**
correct working shown for at least TR and MR calculations for multiple rows	**B1**
final table correctly presented or equivalent correct list of TR, AR, MR for each Q	**B1**

Answer: TR: 0,10,18,24,24,15 for Q=0..5. AR: Q1=10, Q2=9, Q3=8, Q4=6, Q5=3. MR: MR1=10, MR2=8, MR3=6, MR4=0, MR5=-9.

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