# 1.10 Revenue, Profit and the Profit-Maximising Level of Output: Test Pack

Total Marks

AQA 7136 · Calculators not allowed · about 15 minutes

Name: _____ Date: ____ / ____ / _____

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

**1** Multiple choice on revenue concepts for a single firm facing a given price schedule in a generic market.

Select the one correct statement about revenue and profit for a firm in a generic market. **(1)**

**(Total for Question 1 is 1 mark)**

**2** Explain why the marginal revenue curve lies below the average revenue curve for a firm facing a downward-sloping average revenue curve in a generic market context.

**(Total for Question 2 is 3 marks)**

**3** State what happens to total revenue when marginal revenue is negative, in the context of the revenue schedule of a firm.

**(Total for Question 3 is 1 mark)**

**4** Define total revenue, as used for a firm selling goods in a market context.

**(Total for Question 4 is 1 mark)**


© Revision Library | revisionlibrary.co.uk

**5** Explain briefly the difference between normal profit and supernormal (abnormal) profit for a firm in a short-run context.

**(Total for Question 5 is 2 marks)**

**6** Calculate profit or loss given a single output point. A firm at output Q = 3 sells at price P = 8 so TR = 24. Total cost at Q = 3 is £15. Calculate the firm's profit and state whether it is normal, supernormal or a loss if normal profit at Q = 3 is estimated at £5 included in costs.

**(Total for Question 6 is 2 marks)**


© Revision Library | revisionlibrary.co.uk

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

## Question 1

option A only, total revenue = price x quantity, is correct **B1**

**Answer: A**

## Question 2

selling extra units requires lowering price on all units, so the extra revenue from one more unit is less than the price at which that unit sells **M1**

therefore MR is the change in TR and falls faster than AR, making MR lie below AR when AR slopes down **A1**

example explanation: to sell one more unit the firm reduces price, losing some revenue on previous units, so MR < AR **A1**

**Answer: Because to increase sales the firm must cut price on all units, the additional revenue from the extra unit is reduced by lost revenue on earlier units, so MR falls below AR.**

## Question 3

total revenue falls when marginal revenue is negative **B1**

**Answer: Total revenue falls when marginal revenue is negative.**

## Question 4

a statement that total revenue is the total receipts from sales, equal to price per unit multiplied by quantity sold **B1**

**Answer: Total revenue is the total receipts from sales, equal to price x quantity.**

## Question 5

normal profit defined as the minimum reward to keep resources in their current use, covering opportunity costs **B1**

supernormal profit defined as any profit above normal profit, i.e. TR greater than total economic costs including opportunity costs **B1**

**Answer: Normal profit is the minimum return covering opportunity costs; supernormal profit is any profit above that level, where TR exceeds all economic costs.**

## Question 6

profit = TR - TC = 24 - 15 = £9 **M1**

since normal profit of £5 is already included in TC, the £9 left after all costs is economic profit, so supernormal profit of £9 **A1**

**Answer: Profit = TR - TC = £9. Since normal profit of £5 is already included in costs, this £9 is economic profit, a supernormal profit of £9.**


© Revision Library | revisionlibrary.co.uk