

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

3.2 Economic profit per unit is [1]

- **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]

Solutions

2.1 produce the quantity where marginal revenue equals marginal cost.

2.2 profit = $(P - ATC)Q = (12 - 9)(100) = \300 .

2.3 below $MR = MC$ each extra unit adds more revenue than cost; above it the reverse, so profit peaks exactly where they are equal.

3.1 B.

3.2 B.

3.3 (a) $20 - 14 = \$6$. (b) $6 \times 50 = \$300$.