3.6 Firms' costs, revenue and objectives

Name: ____________ Class: ________ Date: __________ **Total: 16 marks**

KEY WORDS total cost 总成本 • revenue 收益 • profit 利润 • total revenue 总收益 • variable costs 可变成本

Objective

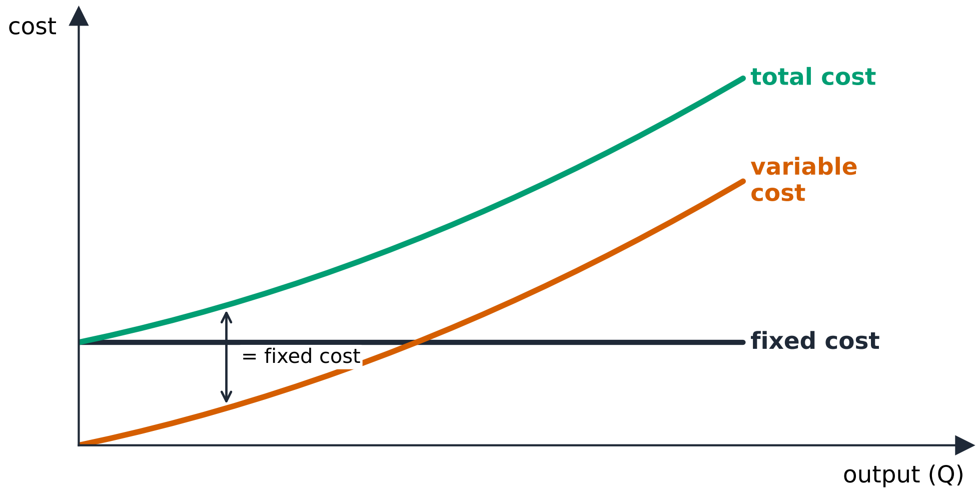
Build the skills to answer exam questions on **firms' costs, revenue and objectives 企业成本、收益与目标** — **fixed and variable costs 固定与可变成本**, **total and average 总与平均** cost, **revenue and profit 收益与利润**, and firms' **objectives 目标**.

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 Worked examples

Costs, revenue and profit



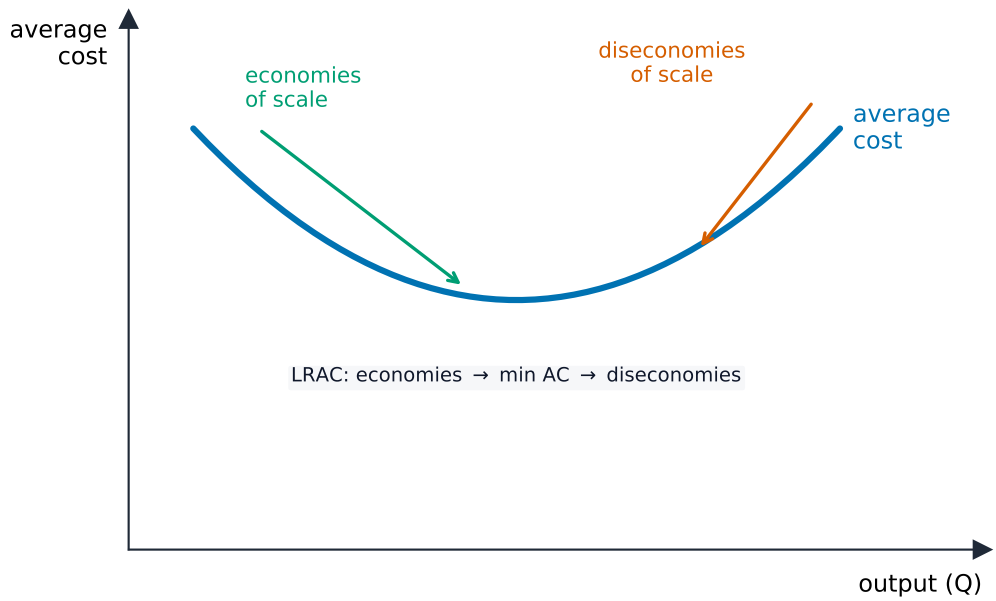
$TC = FC + VC$ · gap between TC and VC is FC

Profit is what is left after costs

- **Fixed costs 固定成本**: do not change with output (rent). **Variable costs 可变**

成本: change with output (materials).

- **Total cost** = fixed + variable. **Average cost** = total cost ÷ output.
- **Total revenue** 总收益 = price × quantity. **Profit** = total revenue − total cost.
- **Objectives:** profit, **survival** 生存, **growth** 增长, 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.

2.1 a fixed cost does not change with output (rent, insurance); a variable cost changes with output (materials, power) (2 for a clear difference; 1 for a partial idea).

2.2 $500 \times \$8 = \$4{,}000$ (2; award 1 for a correct method with the wrong figure).

2.3 profit = total revenue − total cost (1).

3.1 **A**. Profit = \$10,000 – \$7,000 = \$3,000.

3.2 *[4]* K 1 + An up to 3 — a new firm is still building customers and may make losses at first → it has little cash and many rivals → so its first aim is simply to stay open (survive) and not run out of cash → once established, it can aim for profit and growth.

3.3 *[6]* K/App/An — profit = revenue − cost, so a firm can raise profit by raising **revenue** (sell more, e.g. through advertising; or raise the price if demand is inelastic) **or** by cutting **costs** (use cheaper suppliers, raise productivity, gain economies of scale) → it must be careful: raising the price too far may lose sales if demand is elastic, and cutting costs too far may harm quality → so the best route depends on the market.