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1.16 REVENUES AND PROFIT HL: STUDENT LEARNING ACTIVITY

Answer the questions that follow.

1. DEFINITIONS

Define the following terms:

[10 marks]

- Abnormal profit
- Accounting cost
- Accounting profit
- Average revenue
- Demand curve
- Economic profit
- Entrepreneur
- Explicit cost
- Implicit cost
- Industry
- Long run
- Marginal revenue
- Market price
- Market supply
- Negative economic profit
- Normal profit
- Opportunity cost
- Output
- Perfect substitute
- Perfectly price elastic
- Profit maximisation
- Purchased resources
- Quantity demanded
- Raw material
- Resources
- Self-owned resource
- Short run
- Supernormal profit
- Total revenue

2. SHORT-ANSWER QUESTIONS

1. Distinguish between short run **and** long run production. **[5 marks]**
2. Distinguish between total revenue, marginal revenue, **and** average revenue. **[5 marks]**
3. Given the price and quantity data below for a good, calculate total revenue, marginal revenue **and** average revenue. **[5 marks]**

Price (\$)	6	6	6	6	6
Quantity (units, tens of thousands)	0	1	2	3	4

TR = _____;

MR = _____;

AR = _____

4. Plot the data for total, marginal and average revenue calculated in Question 3. **[5 marks]**
5. Given the price and quantity data below for a good, calculate total revenue, marginal revenue **and** average revenue. **[5 marks]**

Price (\$)	7	6	5	4	3	2	1
Quantity (units, tens of thousands)	1	2	3	4	5	6	7

TR = _____;

MR = _____;

AR = _____

6. Plot the data for total, marginal and average revenue calculated in question 5. **[5 marks]**
7. Explain the revenue curves plotted in questions 3 and 5 are different. **[5 marks]**
8. Justify why the price changes or does not change in the data and price curves in questions 3 and 5? **[5 marks]**

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9. Explain the relationship between average revenue and price? **[5 marks]**
10. Given the following data, calculate total revenue **and** marginal revenue for each level of output. Identify the price at each level of output? **[5 marks]**

Quantity (units, tens of thousands)	2	3	4	5	6	7
Average revenue (\$)	22	20	18	16	14	12

TR = _____;

MR = _____;

Price = _____

11. Given the following data, calculate total revenue **and** average revenue for each level of output. What is the price at each level of output? **[5 marks]**

Quantity (units, tens of thousands)	1	2	3	4	5	6
Average revenue (\$)	12	10	8	6	4	2

TR = _____;

AR = _____;

Price = _____

12. Distinguish between economic profit **and** normal profit. **[5 marks]**
13. Explain why another name for 'supernormal' profit is 'abnormal' profit? **[5 marks]**
14. Explain the relationship between normal profit and the break-even point. **[5 marks]**
15. Distinguish between positive, zero and negative economic profit. **[5 marks]**
16. Explain why a firm that earns zero economic profit is unlikely to shut down. **[5 marks]**
17. A business has explicit costs of \$750 000 a year and implicit costs of \$350 000 a year. These costs remain constant between 2015 and 2017. In 2015 its total revenues were \$1 500 000, in 2016 they were \$1 100 000, and in 2017 they were \$950 000. **[5 marks]**

- i. Identify the year the business earned a normal profit?

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- ii. Explain that in one particular year the business was likely to consider shutting down.
- iii. Calculate the amount of supernormal profit that was earned in one of these years.
- iv. State the breakeven point of the business.

3. INTERACTIVE QUIZZES

Choose the best answer to each question.

[50 marks]

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1.16B Revenues and Profit

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