Chapter 18

Production Costs and revenue

SdP

Expenses

Firms incurs expenses when they produce goods and services. These expenses are called COSTS.

You will learn:

How to calculate:

Fixed Costs

Variable Costs

Total Costs

Average Costs

Total Revenue

Profit and Loss

Fixed Costs

These costs remain exactly the same whatever the level of output. Fixed costs will still have to be met if the firm produces nothing.

e.g.: rent, business rates, advertising, insurance premiums and interest payments.

Total Costs

= TFC + TVC

Variable Costs

These production costs that do vary with output. If a firm produces more output, variable costs will increase. If a company produces nothing , variable costs will be zero.

e.g.: raw materials, packaging and fuel.

Average Costs

Total Revenue

= Price x Quantity

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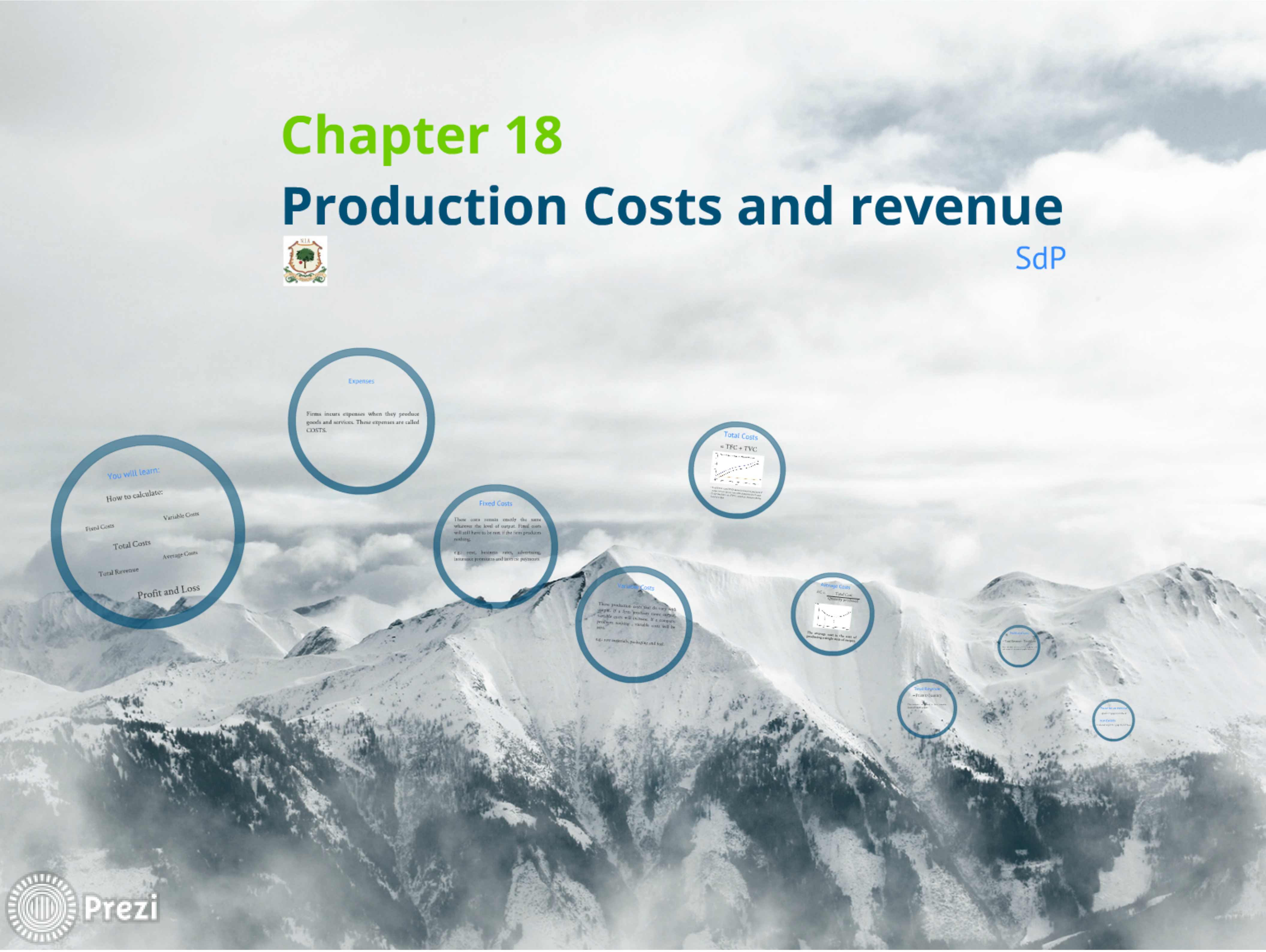
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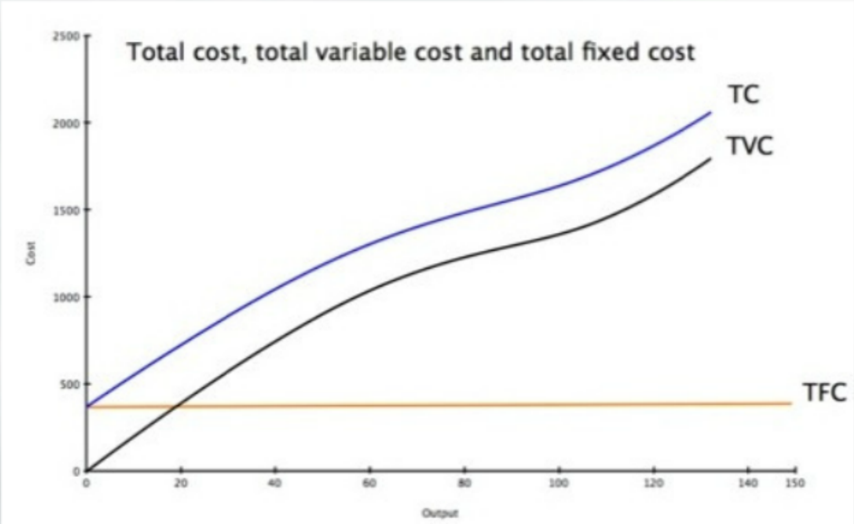
Total Costs

$$= TFC + TVC$$



- Total Fixed Cost (TFC): Costs that must be paid even if output is 0 and do not vary with changes in short-rune
- Total Variable Cost (TVC): costs that changes with the level of output

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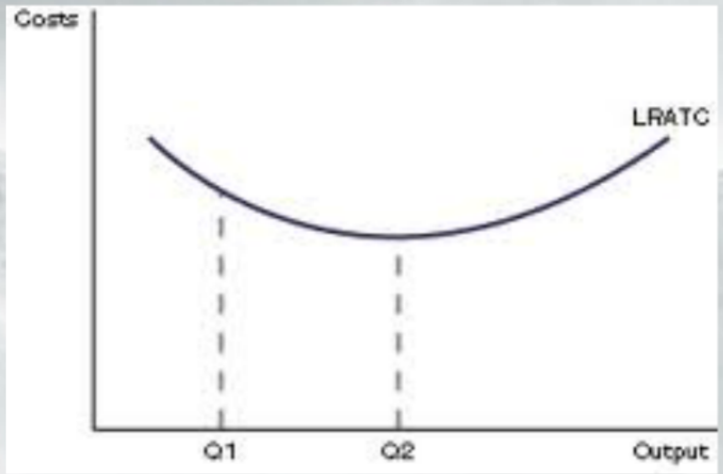
Average Costs

$$AC = \frac{\text{Total Cost}}{\text{Quantity produced}}$$



The average cost is the cost of producing a single unit of output.

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Total Revenue

= Price x Quantity

The amount of money a firm receives from selling its output.

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Profit and Loss

= Total Revenue - Total Costs

One of the main reasons shy firms calculate their costs and revenue is to work out the ***profit*** or ***loss*** made.

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Any Questions?

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Pause for an exercise

Question 2, page 81, text book

HOMEWORK

Economics in practice, page 81, text book

Any Questions?

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