

Chapter 30

Costs

SdP



Expenses

Firms incur 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 run, if the firm produces nothing.

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

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

Total Costs

$$= TFC + TVC$$



Average Costs

$$AC = \frac{TC}{Q}$$

Quantity produced



Profit and Loss

Profit = Total Revenue - Total Costs

Total Revenue

$$= Price \times Quantity$$

Price is the amount of money that consumers are willing to pay for a unit of a good or service.

Profit and Loss

Profit = Total Revenue - Total Costs

Loss = Total Costs - Total Revenue

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Total Revenue

TR = Price x Quantity

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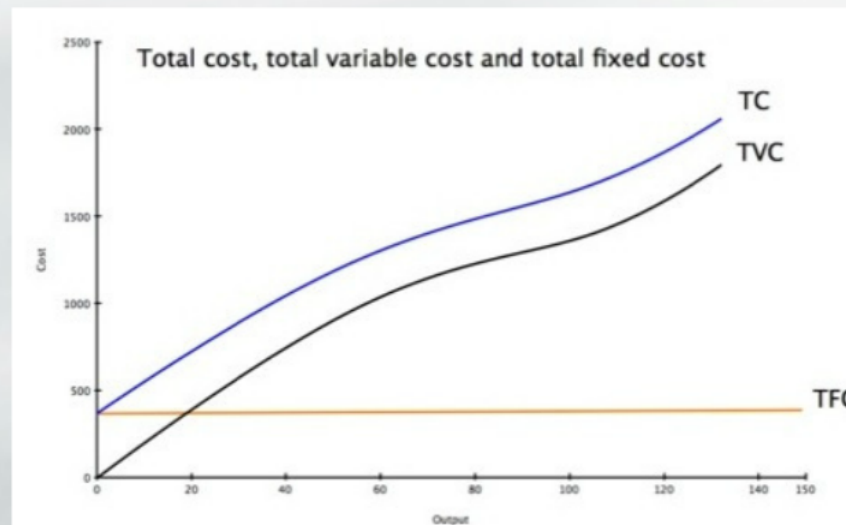
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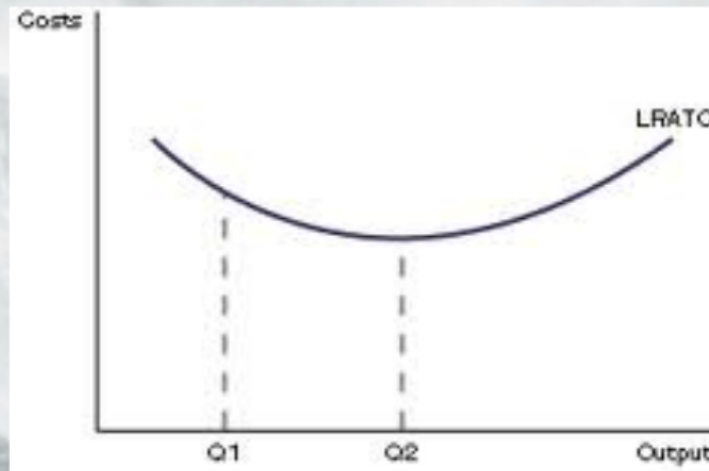
Total Costs

$$= \text{TFC} + \text{TVC}$$


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

Average Costs

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



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

Total Revenue

$$= \text{Price} \times \text{Quantity}$$

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

Profit and Loss

$$= \text{Total Revenue} - \text{Total Costs}$$

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

Any Questions?

PAUSE FOR AN EXERCISE

Question 2, page 81, text book

HOMEWORK

Activity sheets