

# Revenue and Profit

## Notes

### “REVENUE AND PROFIT” TARGETS

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### REVENUE AND PROFIT

For today, we will assume that all firms operate in a perfectly competitive market. This means they are price takers.

1)

2)

3)

4)

### OPTIMAL OUTPUT RULE

Let's find out how a firm determines its profit maximizing level of output.

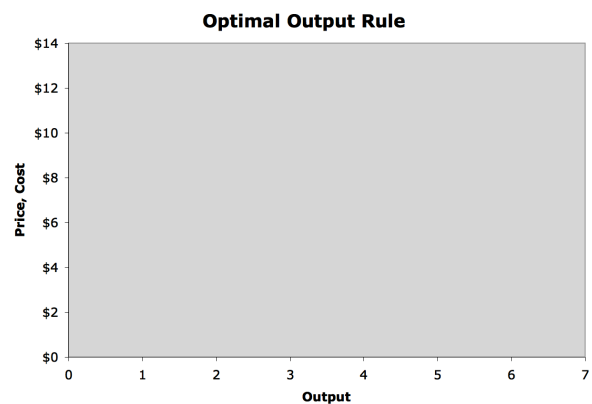
Q	\$	TR	MR	TC	MC	Pr.
1	\$7	\$7				
2	\$7	\$14				
3	\$7	\$21				
4	\$7	\$28				
5	\$7	\$35				
6	\$7	\$42				

1)

2)

3)

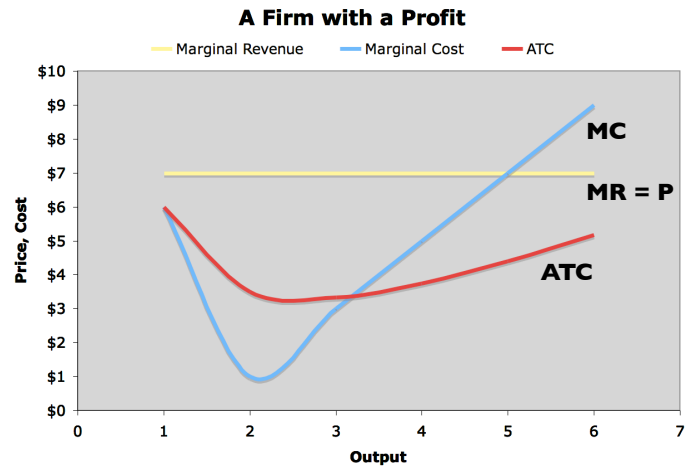
4)



A FIRM WITH A PROFIT

A firm will produce where  $MC = MR$ . Whether or not it makes a profit, however, depends on the price and its average total cost (ATC) curve.

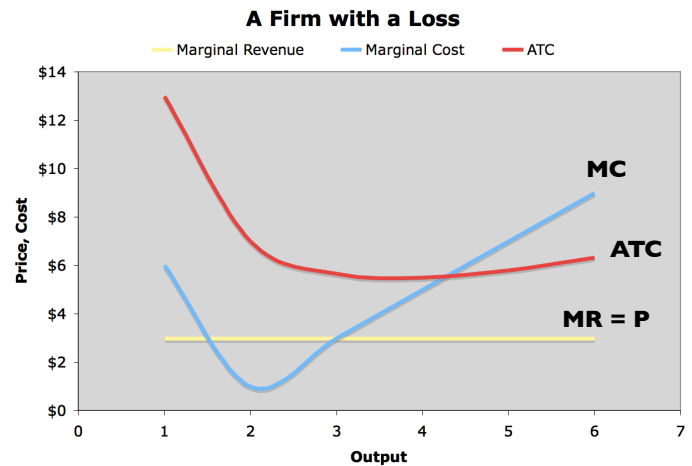
- 1)
- 2)
- 3)
- 4)



A FIRM WITH A LOSS

Suppose that the ATC curve is above price.

- 1)
- 2)
- 3)
- 4)
- 5)



SHORT RUN PRODUCTION DECISION

So, if a firm is losing money, why doesn't it shut down production to save money?

- 1)
- 2)
- 3)
- 4)

LONG RUN PRODUCTION DECISION

A firm that consistently incurs a loss in the short run will eventually leave the industry in the long run.

- 1)
- 2)