

*Edexcel A-level Economics exam practice answers*

13: Revenues, costs and profits

1 (a) **Correct answer: B** Output lower, price higher [1]

(b) £3000 because at sales maximising output total revenue equals total cost so when it moves to profit maximising output, total revenue – total cost is £27 000 - £24 000. [2]

(c) Price elastic (total revenue has fallen but the price would have increased). [2]

2 (a) They would all decrease. Note that marginal cost would fall because the fall in oil price affects every unit of plastic produced i.e. it is a variable cost. [4]

(b) **Correct answer: C** When marginal cost is below average cost, average cost is falling [1]

3 (a) Fixed costs are those that do not vary with output or, in this case, with the number of hotel guests. Examples include business rates, yearly maintenance contracts and advertising. Variable costs vary directly with output or, in this context, the number of hotel guests. Examples include food, drinks, linen. [5]

(b) **KN:** 2 marks; **AP:** 2 marks; **AN:** 2 marks; **EV:** 2 marks

Its variable costs are £1.04 million. Given that its revenue is £1.14 million, it is covering variable costs and making a contribution to fixed costs. Therefore, it would remain in business in the short-run. Since total costs are not being covered in the long-run, the firm would cease production.

EV: 2 marks However, the firm might have retained profits which it could use to remain in production at least for a time. Also, if the firm produces many products some of which are profitable then it could cross-subsidies so enabling the firm to remain in production. [8]