Edexcel (B) Economics A-level

Theme 1: Markets, Consumers and Firms

1.6 Revenues, Costs, Profits and Cash

1.6.1 Revenue and costs

Notes

Calculation of sales volume and sales revenue

Total revenue (TR) is calculated by **price times quantity sold**. This is the revenue received from the sale of a given level of output.

Average revenue (AR) is the average receipt per unit. This is calculated by **TR / quantity sold**. In other words, this is the price each unit is sold for.

Marginal revenue is the extra revenue earned from the sale of one extra unit. It is the difference between total revenue at different levels of output.

Calculation of average, fixed, variable and total costs

Fixed costs are costs which do not vary with output. For example, rents, advertising and capital goods are fixed costs. They are indirect.

Variable costs change with output. They are direct costs. For example, the cost of raw materials increases as output increases.

The total cost is the cost to produce a given level of output and is calculated by:

Total costs = total variable costs + total fixed costs

Average costs is the cost per unit and is calculated by:

Average costs = total costs / quantity produced

Marginal cost is the cost of producing one extra unit.

Calculation of percentage change

The calculation of percentage change is useful for working out the marginal benefit or cost of an action. In other words, it can be used to calculate the effect one extra unit of something.

Firstly, the difference between the two numbers being compared has to be calculated. Divide this value by the original number, multiply by 100 and this gives the percentage change.

A negative number indicates a percentage decrease, whilst a positive number indicates a percentage increase.

Example:

- o Starting value = £990
- o Final value = £850
- o Difference = final value − starting value = £850 - £990 = -£140.
- o Difference / starting value = (-£140/£990) x 100 = -14.1%. This indicates that the value has fallen by 14.1%.