

Economics Revision Worksheet

A2 Economics

Calculating Revenue

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WORKSHEET

Revision Topic : Calculating the Revenue of a Firm

Multiple Choice Questions

Question 1

A cake shop finds that changing the price of its chocolate cakes from £2.00 to £1.98 per cake raises demand from 50 to 51 cakes per week. The marginal revenue from selling the 51st cake is:

- A** £2.00
- B** £1.98
- C** £0.98
- D** -£0.02
- E** -£1.02

Question 2

Which of the following statements is true if a firm faces a linear, downward sloping demand curve?

- A** Marginal revenue will always be positive, as price falls.
- B** Average revenue will equal zero where the price elasticity of demand equals minus one.
- C** Marginal revenue will always be negative.
- D** Price elasticity of demand will be constant as price falls.
- E** Marginal revenue will be positive and then negative as price falls.

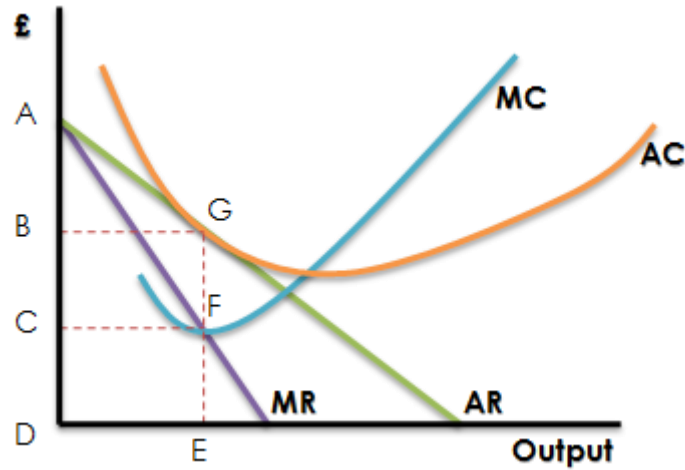
Question 3

A firm adopting a policy of revenue maximization will operate at the output level where:

- A** Marginal revenue equals marginal cost.
- B** Average costs equal average revenue.
- C** Normal profit is zero.
- D** Average revenue is zero.
- E** Marginal revenue is zero.

Question 4

The diagram below shows a profit maximizing firm in long-run equilibrium in monopolistic competition.

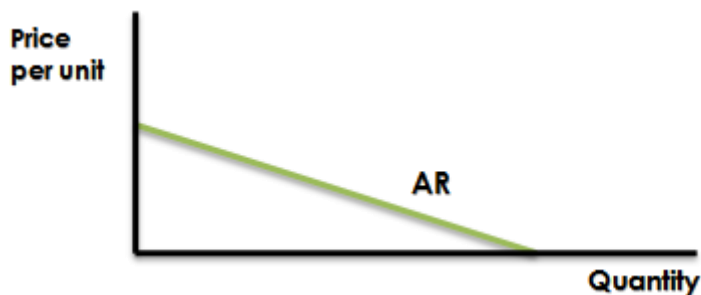


Which of the following areas represents the firm's total revenue.

- A** BGFC
- B** BGED
- C** CFED
- D** AGB
- E** AGED

Question 5

A firm is faced with the following demand curve for its product:



This firm will also face:

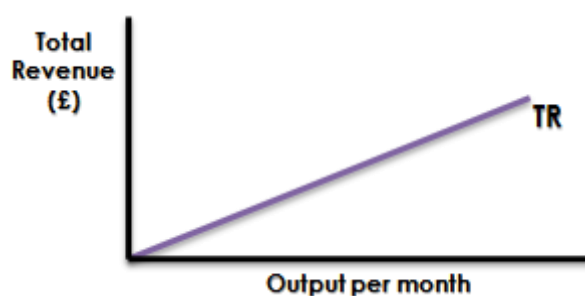
- A** A horizontal marginal revenue curve.
- B** A vertical marginal revenue curve.
- C** Marginal revenue always equal to zero.
- D** A downward sloping total revenue curve.
- E** A positively then negatively sloped total revenue curve.

Question 6

A firm with the objective of sales maximization will seek to set:

- A** Marginal cost equal to marginal revenue.
- B** Marginal costs equal to average revenue.
- C** Marginal revenue equal to zero.
- D** Average revenue equal to average cost.
- E** Average revenue equal to zero.

Question 7



The diagram shows a firm's total revenue as output increases. Which of the following best characterizes such a firm?

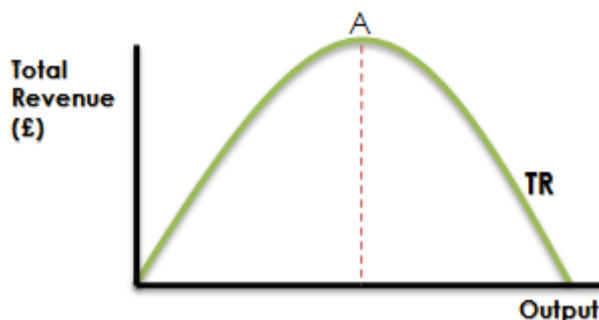
- | <u>Average Revenue</u> | <u>Marginal Revenue</u> |
|------------------------|-------------------------|
| A Constant | Constant |
| B Rising | Rising |
| C Rising | Constant |
| D Constant | Rising |
| E Falling | Falling |

Question 8

A light aircraft manufacturer finds that by lowering the price of its planes from £1.2 million to £1.1 million each, annual sales increase from four to five. The marginal revenue gained from the sale of one extra plane is:

- A** £0.3 million.
- B** £0.5 million.
- C** £0.7 million.
- D** £0.9 million.
- E** £1.1 million.

Question 9



A pizza delivery company operating at point A must necessarily be operating where:

- A** $MC = MR$
- B** $AC = AR$
- C** $MR = 0$
- D** $P = MC$
- E** it is productively efficient.

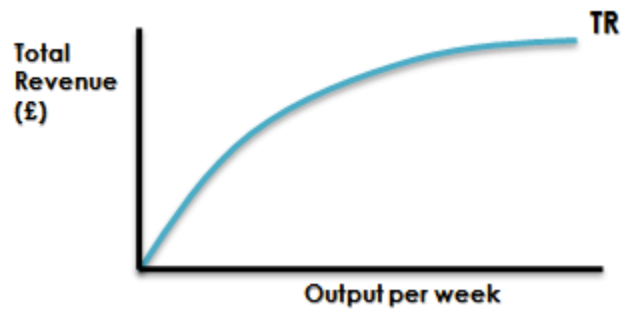
Question 10

Output of Boats	Total Revenue £	Average Revenue £	Marginal Revenue £
0	0		
1	20,000		
2	38,000		
3	54,000		
4	68,000		
5	80,000		

The table shows a small boat builder's total revenue as output increases. Which of the following best characterizes such a firm? (You may use the right-hand columns to show your workings.)

- | <u>Average Revenue</u> | <u>Marginal Revenue</u> |
|------------------------|-------------------------|
| A Constant | Constant |
| B Falling | Constant |
| C Rising | Rising |
| D Constant | Falling |
| E Falling | Falling |

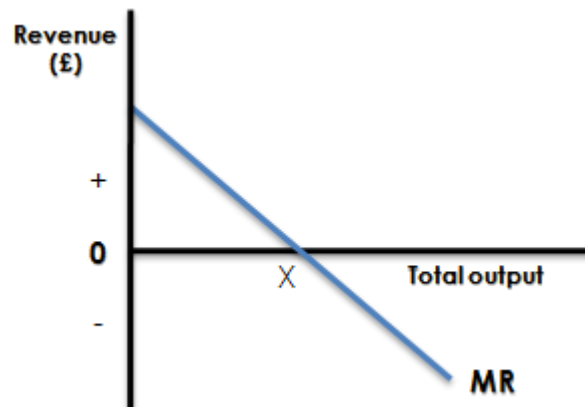
Question 11



The diagram shows a firm's total revenue as output increases. Which of the following best characterizes such a firm?

- | <u>Average Revenue</u> | <u>Marginal Revenue</u> |
|------------------------|-------------------------|
| A Constant | Constant |
| B Rising | Falling |
| C Falling | Falling |
| D Falling | Rising |
| E Rising | Rising |

Question 12



The diagram shows a firm's marginal revenue curve for a product. Which of the following is true at point X? (You may annotate the diagram in your explanation).

- A** Total volume of sales is maximized.
- B** Average revenue equals marginal revenue.
- C** Average revenue is maximized.
- D** Total revenue is maximized.
- E** Total profits are maximized.