

Economics Revision Worksheet

A2 Economics

What is meant by profit?

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Date:

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WORKSHEET

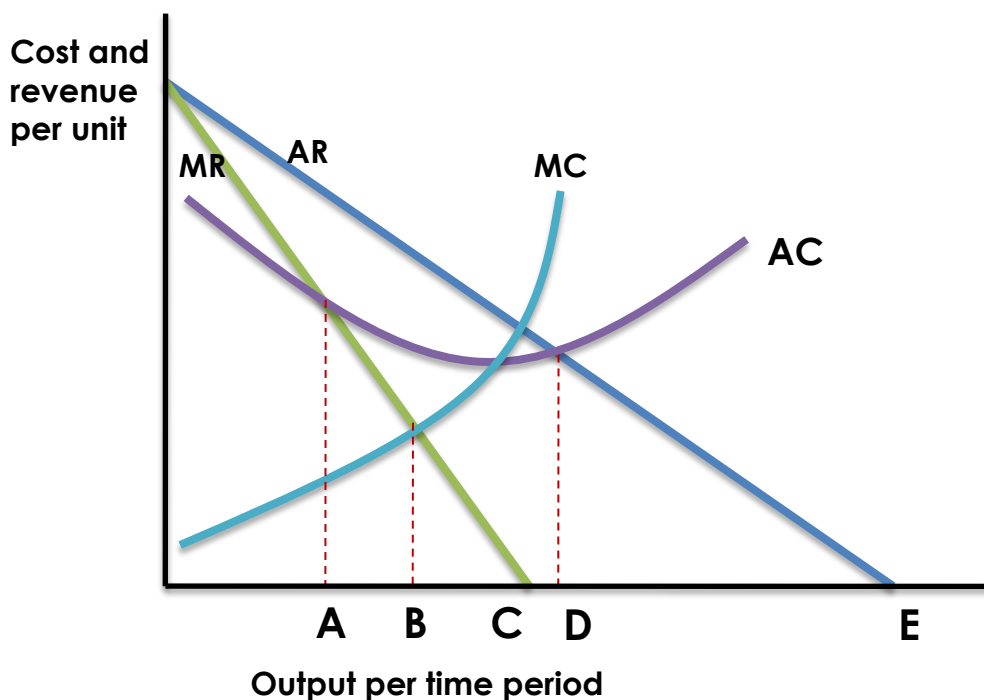
Revision Topic : What is meant by profit?

Multiple Choice Questions

Question 1

A sports centre is too far away from shops for it to be feasible for competitors in an event to buy their refreshments anywhere else than in the centre's own café. The diagram below shows the cost and revenue situation on a particular day.

Which level of output is consistent with the assumption that the sports centre is a profit maximiser?

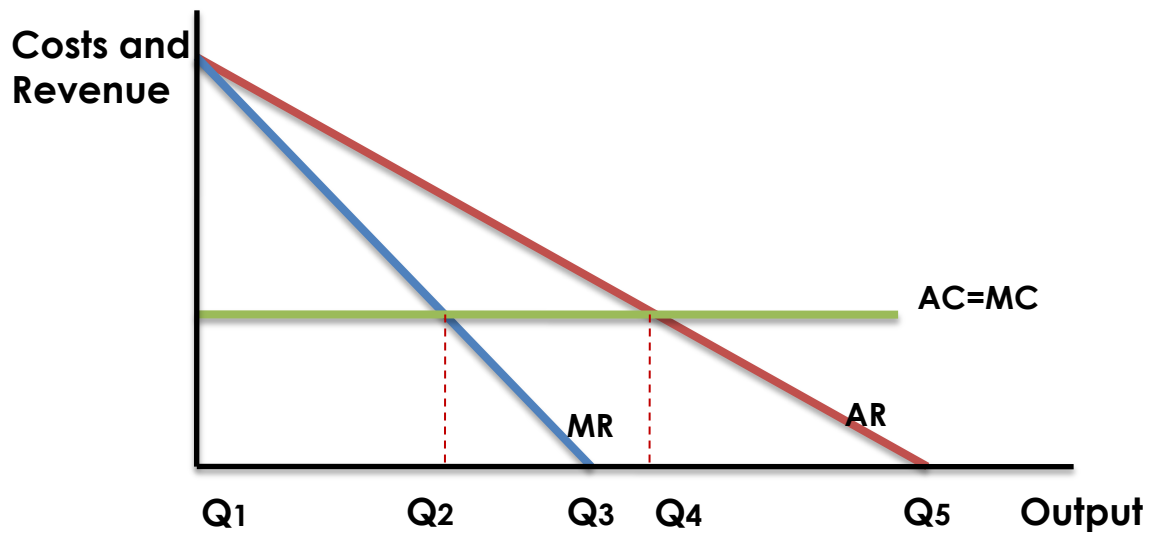


Question 2

A public limited company adopting a policy of revenue maximization rather than profit maximization would :

- A** raise output and reduce price.
- B** raise output and raise price.
- C** reduce output and reduce price.
- D** reduce output and raise price.
- E** leave output unchanged but let price be determined by demand.

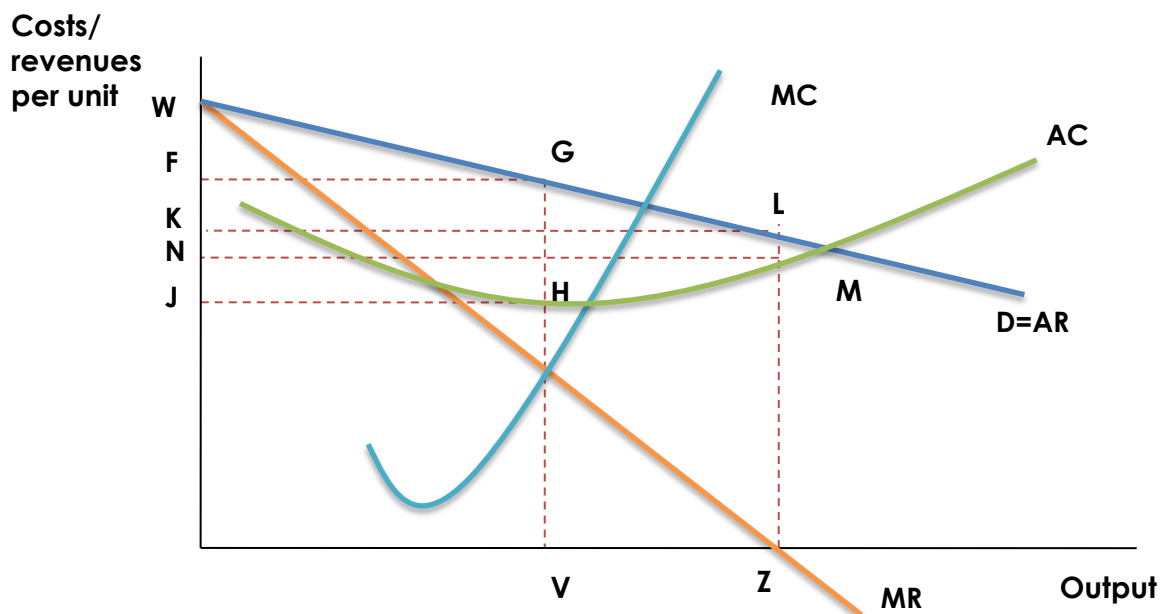
Question 3



The above diagram shows a competitive industry with constant returns to scale operating at output level Q4. If the firms in this industry combined and acted as a profit maximizing monopoly then, assuming no change in costs, output would:

- A** remain at Q4
- B** rise to Q5
- C** fall to Q3
- D** fall to Q2
- E** fall to Q1

Question 4

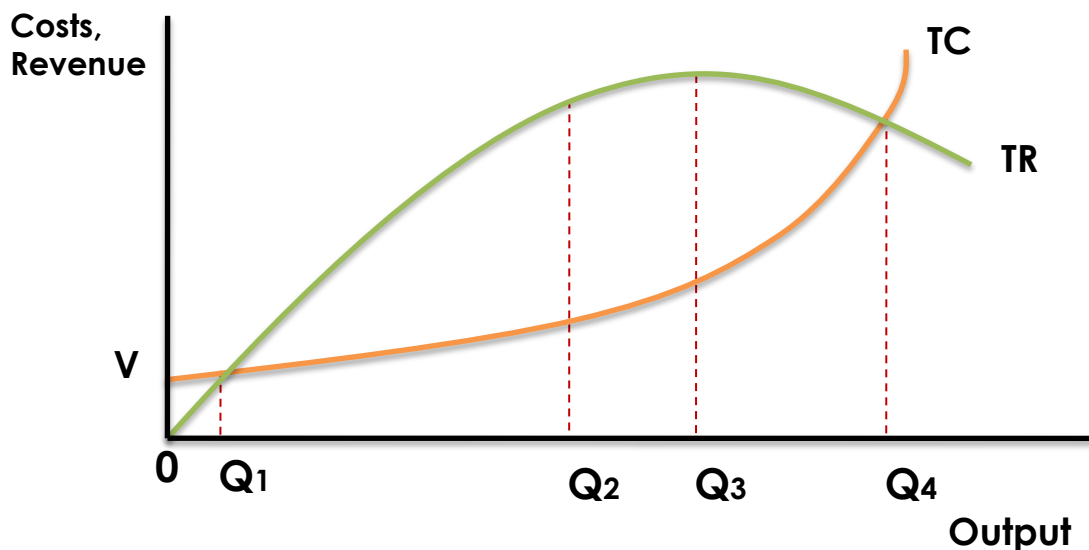


The diagram shows a monopoly's costs and revenues.

Which of the following areas represent its supernormal profits when following a policy of revenue maximisation?

- A** FGHI
- B** KLMN
- C** WLK
- D** FGVO
- E** KLZO.

Question 5



The diagram shows the costs and revenue curves for a small airline company. Which of the following statements is true?

- A** Total revenue equals total variable cost at output Q1.
- B** Revenue maximization is at output Q2.
- C** Profit maximization is at output Q3.
- D** Sales maximization is at output Q4.
- E** Marginal revenue is positive but falling between output Q3 and Q4.

Question 6

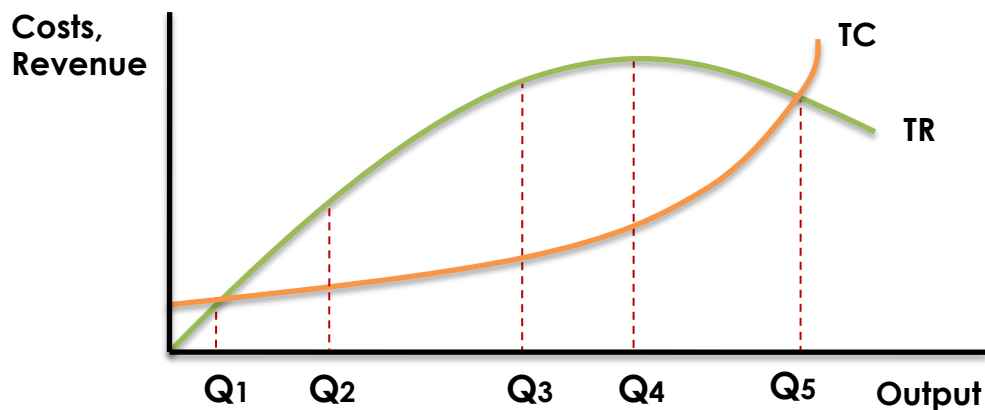
An Indian restaurant owner collects the following information for the production of a Chicken Tikka Masala.

Quantity	Total revenue from Chicken Tikka		Total Cost
	Masala sales		
50	£300	£250	
51	£308	£255	
52	£315	£262	
53	£321	£270	
54	£326	£279	
55	£330	£3289	

Over what output range would the owner maximize profits ?

- A** 50 - 51
- B** 51 - 52
- C** 52 - 53
- D** 53 - 54
- E** 54 - 55

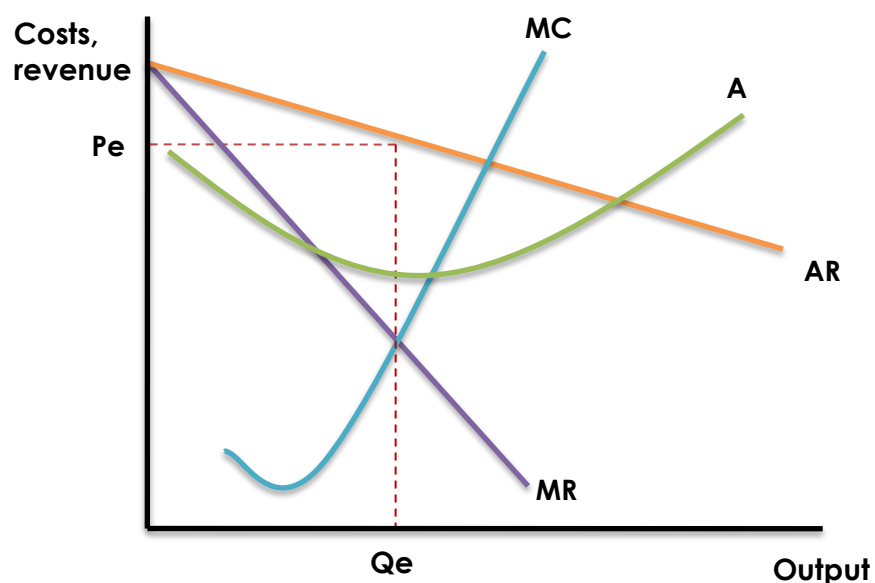
Question 7



The diagram shows the costs and revenue curves for a firm. Which of the following statements is true?

- A** Total revenue equals total variable cost at output Q1.
- B** Profit maximization is at output Q2.
- C** Sales maximization is at output Q3.
- D** Revenue maximization is at output Q4.
- E** Allocative efficiency is at output Q5.

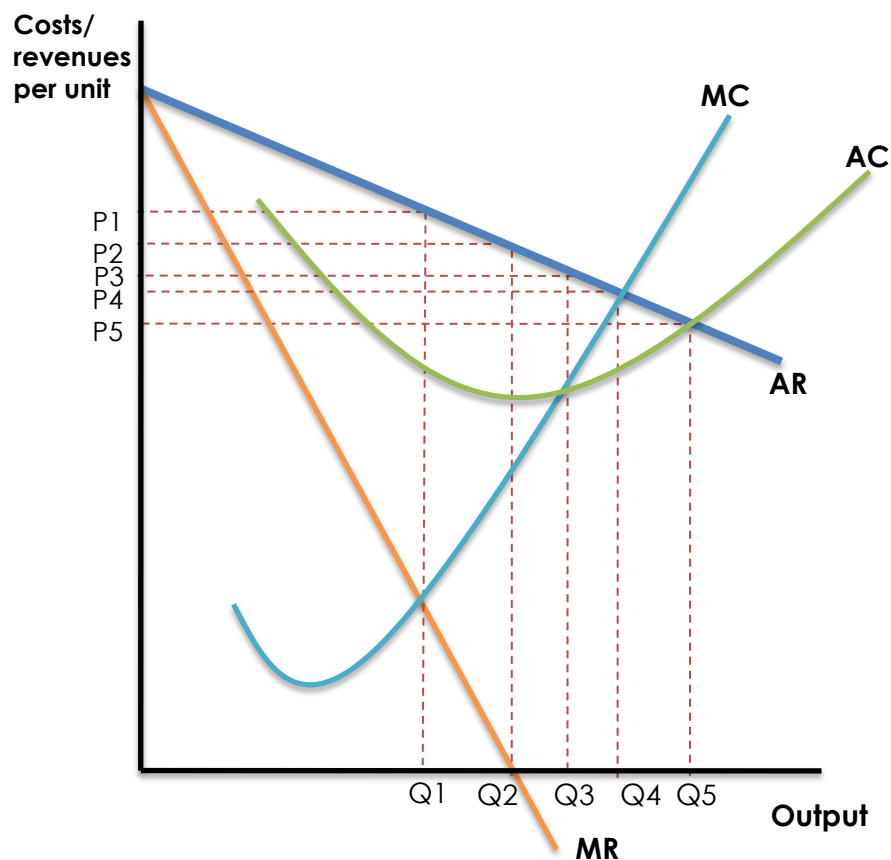
Question 8



The diagram shows a profit maximizing firm producing DVDs where output is initially at Q_e and price P_e . However, the growth of digital downloads and home movie technology is forecast to decrease the demand for DVDs in 2008. This is likely to cause:

	Output	Price	Profit
A	Decrease	Decrease	Decrease
B	Increase	Decrease	Increase
C	Decrease	Increase	Decrease
D	Stay constant	Decrease	Decrease
E	Decrease	Increase	Increase

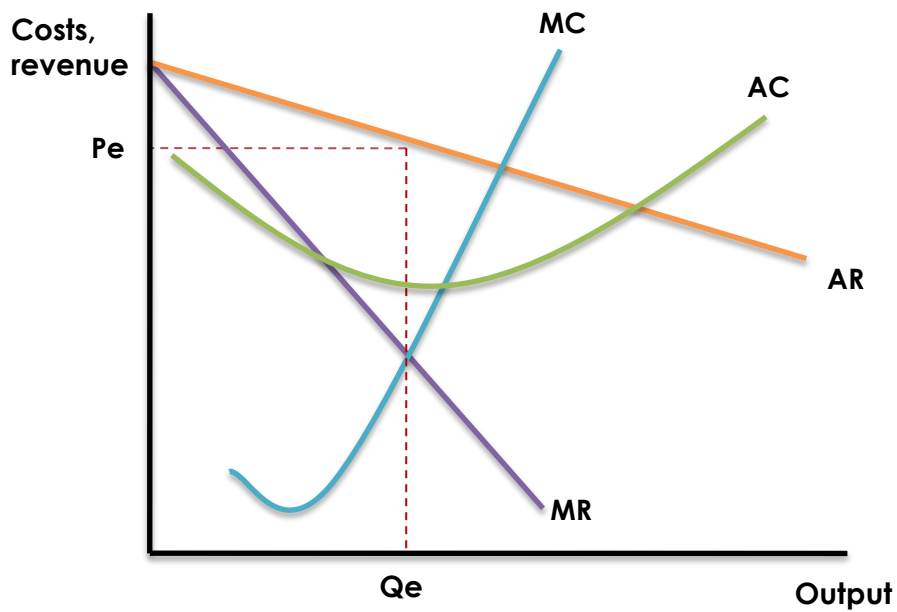
Question 9



The diagram shows different possible price and output combinations for a firm. Which of the following is true?

- A** The revenue maximizing level of output is less than the profit maximizing level of output.
- B** Supernormal profits are achieved if the firm conducts an allocatively efficient pricing policy.
- C** The sales maximization price is greater than the revenue maximization price.
- D** Only normal profits are achieved if the firm operates at the productively efficient level of output.
- E** Demand is price inelastic at the revenue maximization level of output.

Question 10



The diagram shows a profit-maximizing dry cleaning business with monopoly power in a small town operating at output Q_e and price P_e . Other things remaining equal, a significant increase in the cost of materials used for dry cleaning clothes is likely to cause :

	Output	Price	Profit
A	Fall	Rise	Fall
B	Stay constant	Stay constant	Fall
C	Fall	Fall	Fall
D	Stay constant	Rise	Fall
E	Fall	Fall	Rise