

REVENUE

Q1. Explain the relationship between TR and MR when price remain constant.

Ans.

Quantity	P/AR	TR	MR
1	5	5	5
2	5	10	5
3	5	15	5
4	5	20	5
5	5	25	5

Diagram:

- When price remain constant firm can sell any quantity of output at a price fixed by the market.
- MR is horizontal straight line parallel to x-axis.
- As MR is constant TR also increases at constant rate.
- TR curve start from the origin as at zero level of output, TR is zero.
- TR is a positive slope straight line.

Q2. What is the relationship between AR and MR when price remain same?

Ans.

Quantity	P/AR	TR	MR
1	5	5	5
2	5	10	5
3	5	15	5
4	5	20	5
5	5	25	5

Diagram:

- It is a case of perfect competition firm can sell more at same price.
- It means revenue from every additional unit is equal to AR.
- Both AR and MR is horizontal straight line parallel to x-axis.

Q3. What is relationship between TR and MR. when price of good fall with rise in output.

Ans.

Quantity	P/AR	TR	MR
1	5	5	5
2	4	8	3
3	3	9	1
4	2.25	9	0
5	1	5	-4

Diagram:

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- When more of output can be sold by lowering in price, the revenue from every additional unit will fall.
- As MR is positive TR increases.
- MR is zero TR is at maximum point.
- MR is negative start falling.

Q4. What is relationship between AR and MR. when price falls.

Ans.

Quantity	P/AR	TR	MR
1	5	5	5
2	4	8	3
3	3	9	1
4	2.25	9	0
5	1	5	-4

Diagram:

- MR and AR curve slope downward from left to right.
- Both falls with increase in output.
- Fall in MR is double then is AR.
- MR falls to zero and can become negative
- MR is more steeper than AR.
- Fall in AR is less than fall in MR.
- AR neither be zero nor negative. As TR is always positive.

Q5. What is breakeven point?

Ans. It refers to the point where $TR = TC$. At breakeven point firm is able to meet all its cost.

Diagram:

- In the above diagram E is breakeven point at which $TR = TC$.
- Point E is the situation of normal profit where there is no loss no profit.
- Any point below E indicates the abnormal loss where as any point above E show abnormal profits.

Q6. What is shut-down point. Q. when the firm should close its business.

Ans. It refers to a situation where firm is able to cover only its variable cost.

- It is a situation where TR received from the sale of good equal to TVC.
- $\frac{TR}{Q} = \frac{TVC}{Q}$ Thus $AR = AVC$

Diagram:

- In the above diagram points L is shutdown point because firm is able to cover only its average variable cost.

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- It cures loss of fixed cost.
- Firm does not stop the production at this point because as fixed cost as will fixed cost.
- But AR further falls and unable to meet AVC. Then firm will shutdown its production.

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