Break Even point and O.L.

1. A company´s annual fixed costs are €2,000. The variable cost per unit equals its selling price, which is €2. What is the break-even point?

2. A company has a unit margin of €5.
a) Assuming that the manufacturing of 500 physical units produces a loss of €500, calculate the break-even point.
b) Represent graphically the situation of this company assuming that the maximum capacity of the plant is 900 physical units. What is the maximum profit that can be obtained?
c) Calculate the degree of operating leverage of this company for a production andsales volume of 900 physical units and interpret this result.

SOLUTIONS

1. FC = 2000 €
P = VCu = 2 €/u

Q=inf

2.

a) m = 5 €/u

q=500
B=-500
FC=3000

$$q^* = \frac{CF}{m} = \frac{3.000}{5} = 600\ uds$$

q* = FC/m=3000/5 = 600 units

b) max B =1500 euros

c) OL (q=900) = 4500/1500=3