**3.2 Revenue, Costs and profits**

**1 Revenue**

a) Formulae to calculate and understand the relationship between:

• total revenue

• average revenue

• marginal revenue.

b) Price elasticity of demand and its relationship to revenue concepts, including calculations.

**2 Costs**

a) Derivation of short-run cost curves from the assumption of diminishing marginal productivity.

b) The law of diminishing returns.

c) Formulae to calculate and understand the relationship between:

• total cost

• total fixed cost

• total variable cost

• average (total) cost

• average fixed cost

• average variable cost

• marginal cost.

d) The relationship between:

• marginal product and marginal costs

• average products and average cost

• total product and total cost

• short-run and long-run costs.

**3 Economies and diseconomies of scale**

a) The relationship between long-run cost curves and

economies/diseconomies of scale.

b) Minimum efficient scale.

c) Distinction between internal/external economies of scale.

d) Sources of internal economies of scale:

• financial

• technical

• managerial

• marketing

• purchasing

• risk bearing.

e) Sources of external economies of scale:

• availability of skilled labour

• access to transport links

• sharing knowledge.

f) Sources of diseconomies of scale:

• communication problems

• coordination problems

• X-inefficiency.

**4 Profits and losses**

a) The distinction between normal profit, supernormal profit and

losses.

b) Short-run and long-run shutdown points.