

Chapter 14 Notes

Operating Leverage

- Operating Breakeven occurs when $EBIT = 0$

- $EBIT = PQ - VQ - F = 0$

- P = average sales price
- Q is units of output
- V is variable cost per unit
- F is fixed operating costs

- $Q_{BE} = \frac{F}{P-V}$

The Higher a firms leverage, the higher its business risk