Q6. What is the relation between market price and marginal revenue of a price-taking firm?
Ans: Marginal revenue is defined as the change in the total revenue that occurs due to the sale of one more unit of output. It is calculated as

$$MR_n = TR_n - TR_{n-1}$$

Where,

MR_n = Marginal revenue due to nth unit of output

TR_n = Total revenue due to n units of output

TR_{n-1} = Total revenue due to (n – 1) units of output

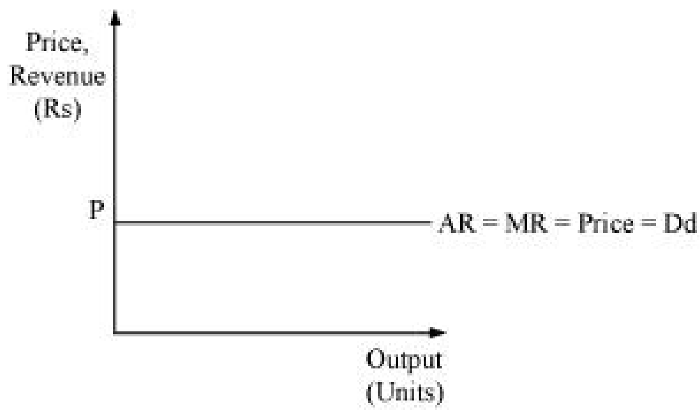
Suppose that the market price is P

$$MR_n = TR_n - TR_{n-1}$$

= $PQ_n - P(Q_{n-1})$

MR = $PQ_n - PQ_n + P$

MR = P. Thus, for a perfect competitive firm, marginal revenue is equal to the market price per unit of output.



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