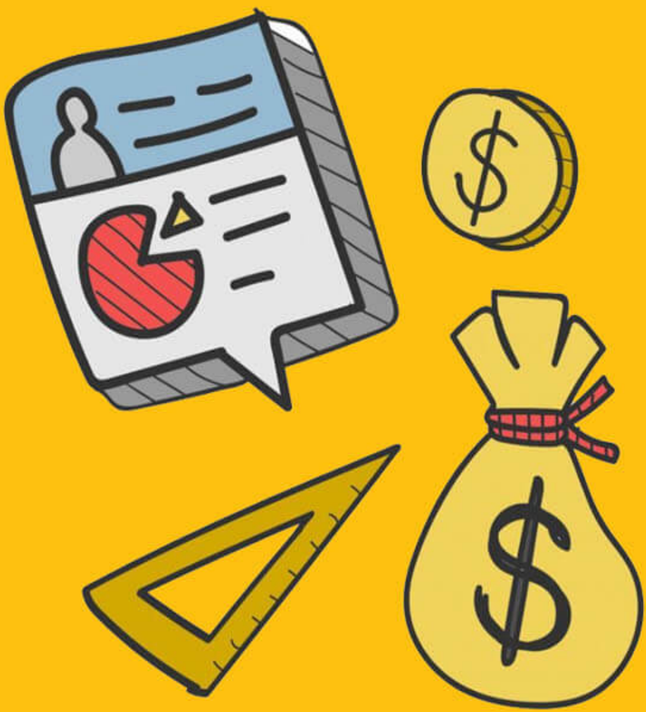
Exam Papers Practice

Marginal, Average and Total Revenue



AQA A Level Economics Revision Notes

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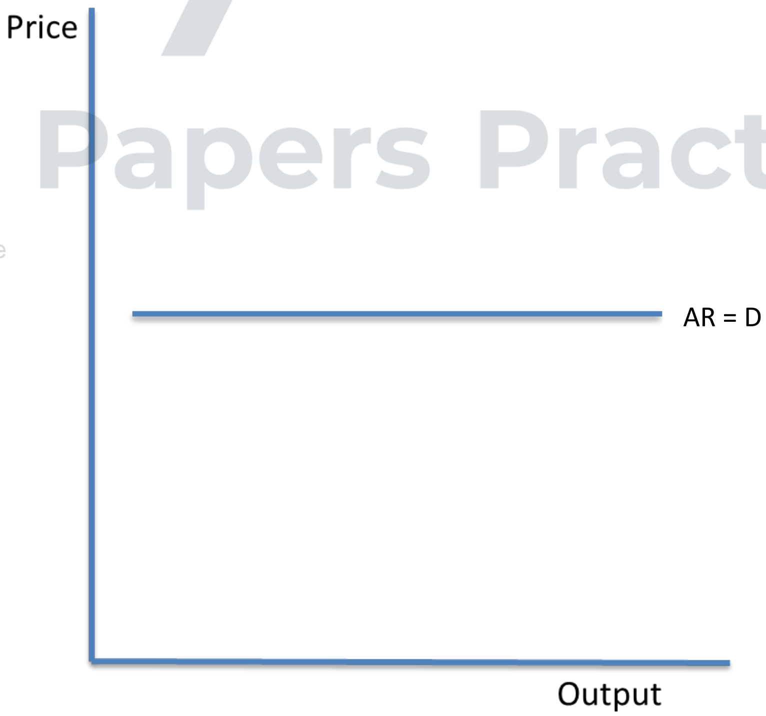
The difference between marginal, average and total revenue

- Total revenue (TR) is calculated by **price times quantity sold**. This is the revenue received from the sale of a given level of output.
- Average revenue (AR) is the average receipt per unit. This is calculated by **TR / quantity sold**. In other words, this is the price each unit is sold for.
- Marginal revenue is the extra revenue earned from the sale of one extra unit. It is the difference between total revenue at different levels of output.

Why the average revenue curve is the firm's demand curve

- The AR curve is the firm's demand curve. This is because the average revenue curve is the price of the good.
- In markets where firms are **price takers,** the AR curve is horizontal. This shows the perfectly elastic demand for their goods.



- Profit is the difference between TR and total costs. It is the reward entrepreneurs receive from taking risks.

The relationship between average revenue and marginal revenue

- When demand is perfectly elastic, marginal revenue = average revenue.

The relationship between marginal revenue and total revenue

- Marginal revenue measures the change in total revenue with respect to changes in the amount of goods and services sold. Marginal revenue is calculated by the change in total revenue divided by the change in quantity sold.