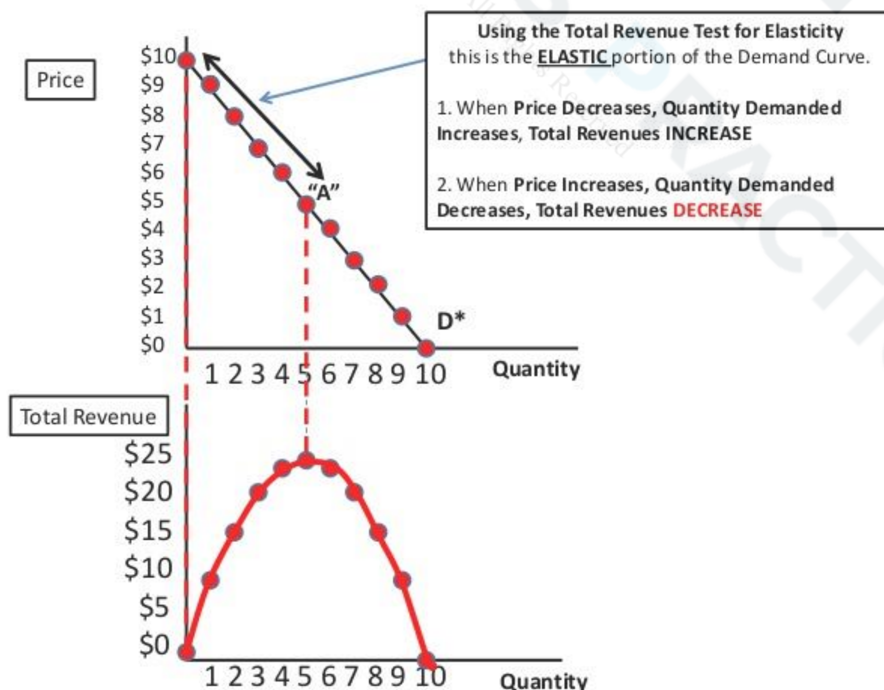
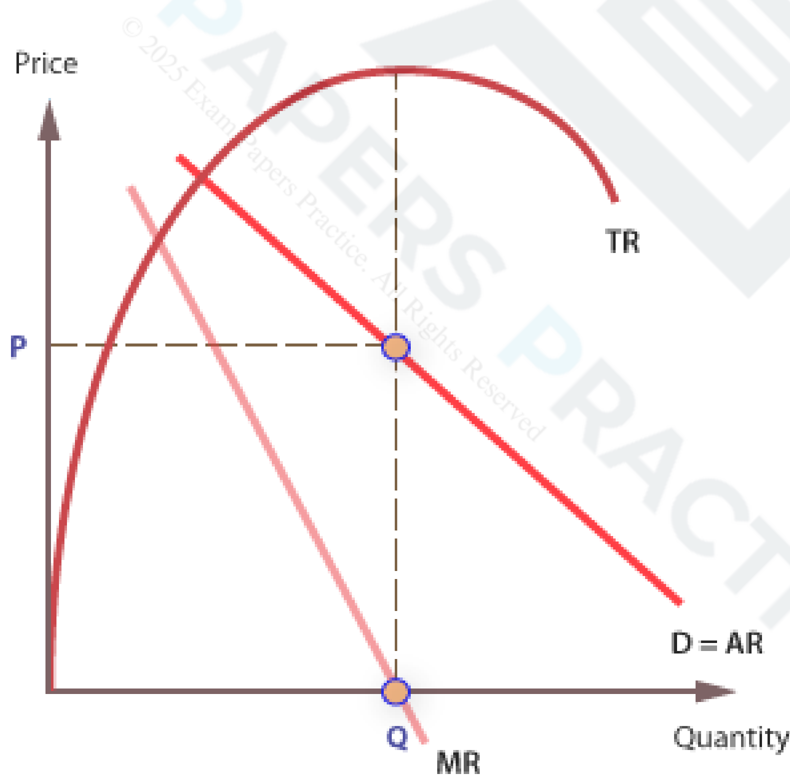
3.3.1 Revenue

- *Formulae to calculate and understand the relationship between:*
    - *total revenue*
    - *average revenue*
    - *marginal revenue*
- *Price elasticity of demand and its relationship to revenue concepts (calculation required)*

- **Price maker (imperfect competition):** a firm that has to cut its price in order to sell more
    - Total revenue is a parabola meaning as the price falls revenue will rise, but more slowly each time it is cut until the point of maximum revenue. When revenue will no longer increase MR=0
- **Price taker (perfect competition):** a firm that has to offer its product at the same price as everyone else.
    - Very competitive market
    - If it charges more it won't be able to sell anything
    - Total revenue is a straight line going through the origin
    - AR curve is horizontal
- Marginal revenue is less than average revenue because when the price is cut the firm loses money on all the items it is already selling
- **Marginal revenue** measures the loss from selling fewer items versus the gain from increasing the price
- The marginal revenue is twice as steep as the average revenue curve because it has to reduce its price on all goods not just the extra output
- Once total revenue reaches a peak it starts to fall as you cut the prices (inelastic demand)



- When demand is elastic, price decreases increase revenue so increasing output increases revenue. However, when demand is inelastic, price decreases reduce revenue so expanding output reduces revenue.
- Points before the maximum are where demand is elastic (MR=+ve)
- The maximum point is where demand is unitary elastic (MR=0)
- Points after the maximum are where demand is inelastic (MR=-ve)
- **Total revenue:** income from the sale of output
    - Price x quantity
- **Average revenue:** the price the firm receives per unit sold (same as the demand curve)
    - Total revenue/ Quantity
- For a price taker demand (AR) is perfectly elastic (horozontial) because the seller has no influence over what they can sell it at (assumes perfect competition)
- For a price maker demand is downward sloping because they have some pricing power
- **Marginal revenue:** the amount received for selling one more unit
    - Change in revenue/ change in quantity
- The point where MR=0 on the revenue diagram is directly below the midpoint of the AR curve where PED=1



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