Marginal analysis

Literature, Russian Literature

Marginal Analysis First and of A. Marginal revenue is the revenue that is added by one extra unit of output (Schenk, . If this concept was to be expressed in terms of a formula, we could say that the change in total revenue is divided by the change in sales.

1. In order to determine the total revenue that can be acquired, we need to study the demand curve. This curve shows us the number of units of a product that consumers are willing to purchase at a certain price. The number of units is multiplied by the price to get total revenue. Total revenue is important in determining marginal revenue. If the marginal revenue is known, then the total revenue can be worked out for a specific change in sales.

B. Marginal cost is the change in total cost that comes from producing one more item (“ Investopedia,” 2011). The reason why organizations need to find marginal cost is to determine when economies of scale can be achieved.

1. Total cost is the cost of producing all the units of production. It is important to know and understand the total cost because it will determine whether or not it is worth it to produce one more unit. The key is to find the optimal point and then do not produce more than the marginal cost allows.

C. Profit it the total revenue made in a certain period of time divided by the total expenses or costs or that same time period. It is important to have as much profit as possible because it determines the financial health of a business.

1. Profit maximization is achieved at the point where marginal revenue equals marginal cost. This is the optimal point of production because any

change, whether an increase or decrease, would result in less profit for a firm, and thus not achieving profit maximization.

D. Profit maximization is the output and price of a certain product that achieves the greatest amount of profit for a firm. The can be found be determining looking at a graph that contains marginal revenue and marginal cost as its axes. The point where these two lines intersect is where profit maximization can be attained.

E. If marginal revenue happens to be greater than marginal cost, then a profit maximising firm must increase production until the marginal cost and marginal revenue is the same. This is because if more products are produced, then less marginal revenue can be gained, thus decreasing marginal revenue to a point where it is equal with marginal cost.

F. On the other hand, if marginal revenue happens to be less than marginal cost, then a firm must decrease production until marginal revenue and marginal cost are equal. This is because if fewer products are produced, then extra marginal revenue can be gained, thus bringing marginal revenue equal with marginal cost.

References

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Schenk, Robert E. (2011). Revenue and Demand. Cyber Economics. Retrieved from http://ingrimayne. com/econ/index. htm