Free case study on explanation

(a) (b)

The difference between the two graphs is that in the first graph (a), total revenue, Total cost and Profit have the straight line graphs. This implies that each graph has a linear function, that is, the total revenue (TR) function is given as; TR = Profit X Quantity, the total cost function TC = FC + VC. This functions takes a linear function of C = mX + C. where C is the y concept. On the other hand, the second graphs (b) illustrates that all the curves, Total Revenue, Total Cost and Profit, have a nonlinear functions (Zanoni, 2009). Another difference between the two graphs is that, the first curve has one breakeven point while the second graph has two break even points.

First graph (a)

Total revenue

In the first graph, the total revenue curve is a straight line slopping upwards, hence positive slope. Assuming that the total revenue is influenced only by the output sold, the linear total revenue function indicates that when a company sales one additional unit of product, the total revenue increases at a constant rate. In other words, the more unit sold, the more total revenue increases at a constant rate, hence linear function. This is also an indication that the marginal revenue is constant, implying that an extra sell of one unit of product result to one unit increase in total revenue.

Total cost

The straight line of the total cost curve indicates that as the volume of sale increases, the cost of production increases at a constant rate. Assuming that the productivity increases at a constant rate, the fixed cost and variable cost

increases at a constant rate in this case. This also indicates that the marginal cost, which is the slope of total cost curve is constant.

Profit

The profit curve in the first graph is demonstrated as having a linear function, that is, a straight line slopping upwards (Lee, & Epstein, 2001). This indicates that as the volume of sale increases, form zero units, the profit increases from negative towards zero, then increases further towards positive at a constant rate. This also implies that the volume of sales has a positive and constant relationship with the profit.

Breakeven point

The first graph has one breakeven point at a point of intersection where total revenue is equal to total cost.

The second graph (b)

Total revenue

The total revenue curve in this case has a nonlinear function. This indicates that as the volume of sales increases, the total revenue increases at an increasing rate (Hansen, & Mowen, 2000). This implies that as the company sales more units the profit of the products increases, hence this firm is a monopoly case. Therefore, the marginal revenue will increase at a constant rate.

Total cost

The total cost curve is also an illustration of a nonlinear curve. This implies that, as the volume of sales increases, the variable cost and the total cost functions increases at a decreasing rate up to a point where there is no more

increase, and then the function starts decreasing at an increasing rate. This shows that the inputs are not generating enough output per unit, at first, and then they generate enough, where inputs is equal to outputs and then less input to generate more output hence low total cost.

Profit

The profit function also a nonlinear function. In other words, as volume of sales increase, the profit increases at an increasing rate, then become stagnant and then starts decreasing at an increasing rate.

Breakeven point

The second graph has two points of intersection where total cost is equal to total revenue. Above the first intersection, the firm makes loss while above the second intersection the firms make profit.

References

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