Qurious Education

Revenues

Multiple-Choice Questions

GCE A-LEVEL ECONOMICS

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If demand for a product is unit elastic, for a given percentage increase in price, total revenue will

A rise by the same percentage. ⬭

B rise by a smaller percentage. ⬭

C fall by the same percentage. ⬭

D remain unchanged. ⬭

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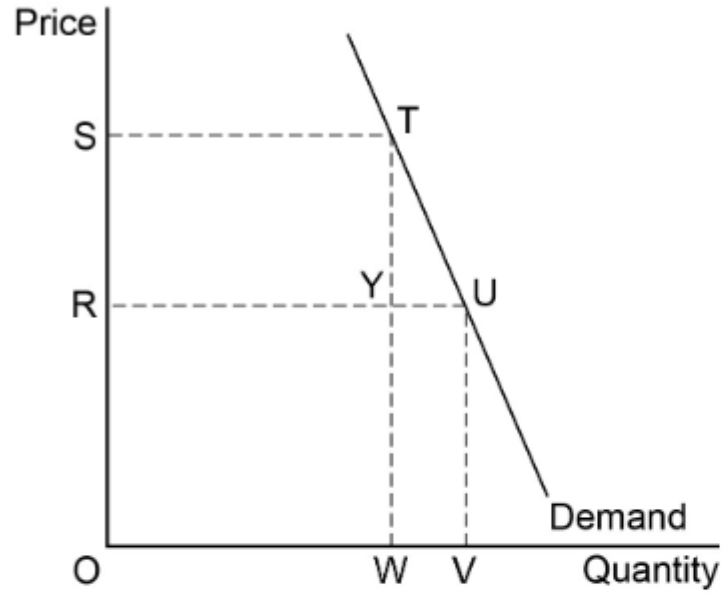
The diagram below illustrates a market in which a monopolist takes control and sets a price above the competitive level.



Take Demand (D) as Average Revenue (AR)

The price charged by the monopolist is OS. If the market had been competitive, the price would have been OR. Under monopoly, the amount buyers spend on the product has increased by

A RSTY.

B OS multiplied by OW.

C RSTU.

D RSTY minus WYUV.

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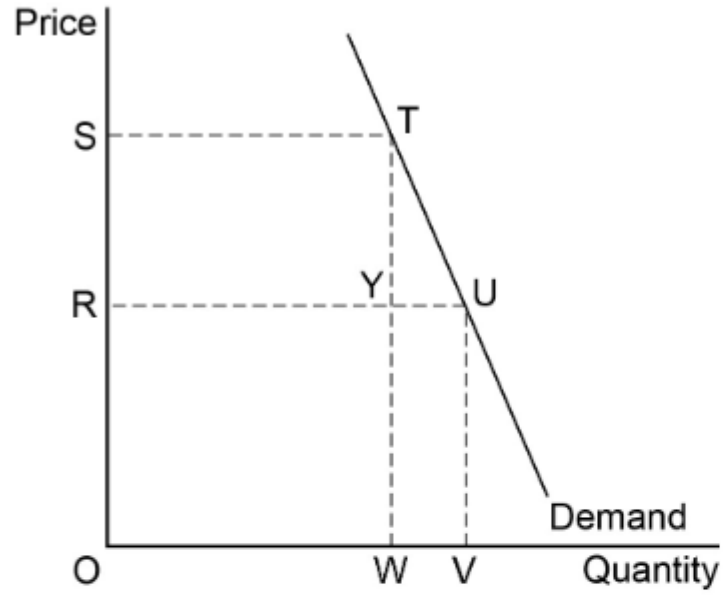

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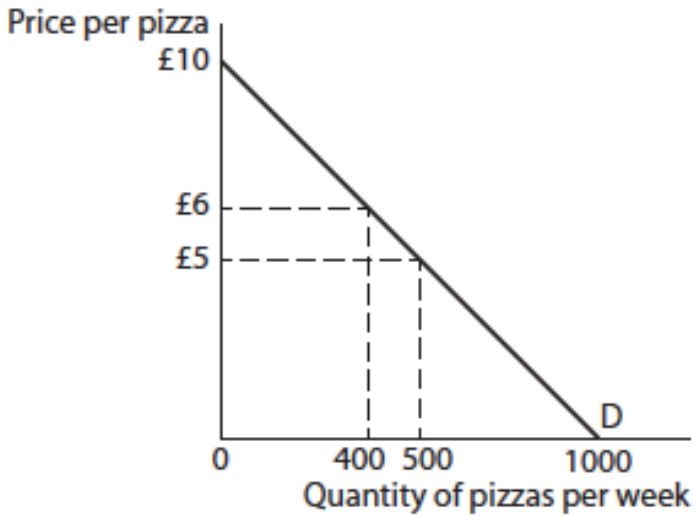
3 A pizza restaurant faces the following demand curve (D). Which one of the following is necessarily true?



A Marginal revenue will be positive then negative as price falls

B Revenue maximisation occurs at a price of £6

C Sales are maximised at a price of £6

D Average revenue will equal zero where price elasticity of demand is unitary

E Cutting the price from £6 to £5 will increase profits

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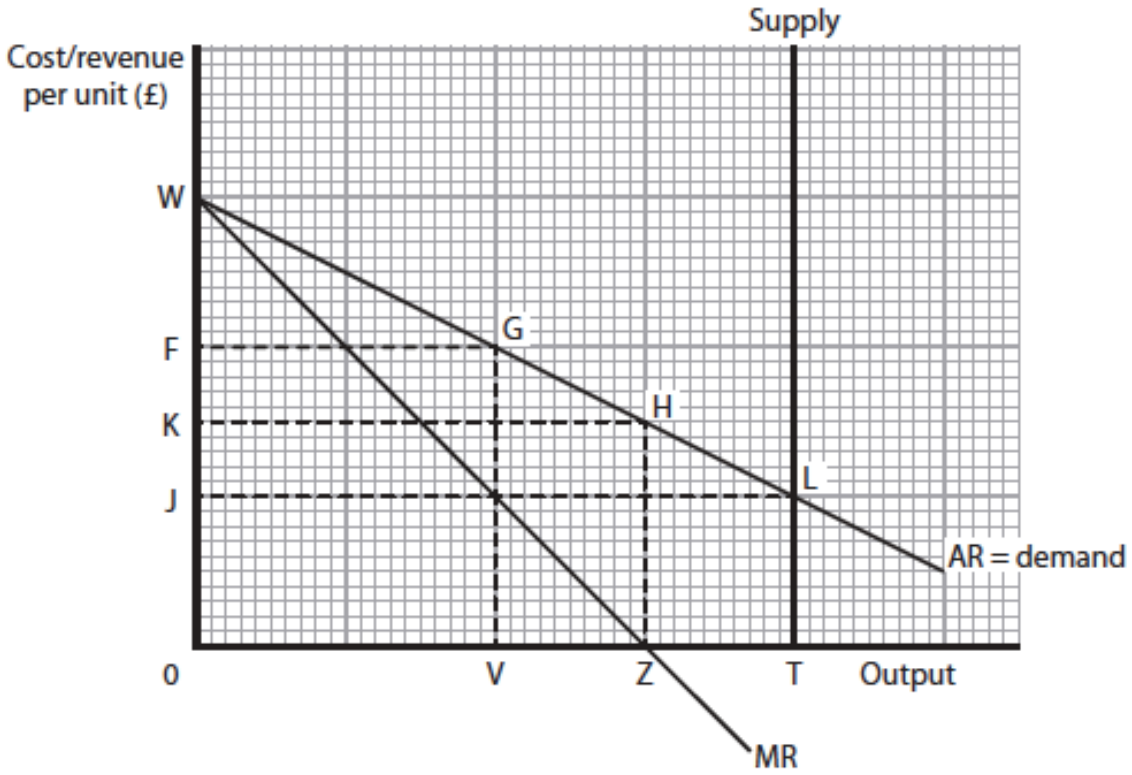
Question Number	Answer	Mark
3	A Definition of marginal revenue (1); Diagram marks or equivalent verbal analysis: annotation of diagram or separate diagram showing parabola shaped TR (1); MR crossing horizontal axis where TR reaches the maximum (1) **or** at output 500 (or close) (1); relationship between AR(=D) and MR, e.g. if the demand curve is downward sloping the MR curve will be below it and steeper (1); relationship between MR and TR, e.g. if MR>0 then TR is rising (1); relationship between AR and/or MR and price elasticity of demand (PED) e.g. if PED is elastic MR is positive (1); if PED is inelastic MR will be negative (1); Application mark: revenue rising from £2400 at output 400 to £2500 at output 500 (1); £5 is revenue maximising (1) Example of knock out mark: it is not E because there is no consideration of any costs. Example of knock out mark: it is not B because there is no indication that the firm is operating at 500 units.	(4)

4 The diagram shows the supply, demand and marginal revenue schedules for parking spaces in a local government car park.



What single price will ensure that the local government maximises total revenue?

(1)

A Zero

B 0J

C 0K

D 0F

E 0W

Question Number	Answer	Mark
4	**C** Definition/identification mark: revenue maximisation: MR=0 is revenue maximisation or verbal identification that the firm cannot make any more money (1) Annotation of diagram **or** as written analysis: Total revenue is 0KHZ/shading of this area (1) with output at 0Z (1). Diagram: parabola shaped TR, upside-down U (1) and if this is connected to MR=0 or Z on the question (1) Application: There will be empty spaces in the car park (1) but if car park is full total revenue is lower (1). Further explanation marks: use of marginal analysis, e.g. if prices were cut total revenue would fall, and if prices were raised total revenue would fall (1) If calculation is shown, to scale, then award for total revenue, output and knockout marks, as appropriate (up to 3 marks). Example of elimination mark: Knock out of B as this is sales maximisation (1) Knock out of A as this would mean there is no revenue (1)	**(4)**