Your notes

GCSE Economics: revision notes

Production, costs, revenue and profit

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Production and productivity

- Production turns inputs (factors of production) into outputs. Productivity is output per worker (or per input) per period of time.
- Higher productivity lowers costs per unit and makes firms more competitive.

Costs, revenue and profit

- **Fixed costs** don't change with output (such as rent). **Variable costs** change with output (such as raw materials).
- **Total cost** = **fixed costs** + **variable costs**. Average cost = total cost ÷ output.
- **Total revenue** = price × quantity sold. Average revenue = **total revenue** ÷ quantity.
- **Profit** = **total revenue** – **total cost**. A loss is made when costs are greater than revenue.

Economies of scale

- **Economies of scale** are the cost advantages of growing larger: **average costs** fall as output rises.
- Examples: bulk buying (discounts for large orders), technical (using bigger, more efficient machines), financial (cheaper borrowing for large firms) and managerial (specialist managers).
- **Diseconomies of scale**: **average costs** rise when a firm grows too big, because of poor communication, coordination problems and low worker motivation.

Worked example

- A firm has **fixed costs** of £2,000 and **variable costs** of £3 per unit. It makes 1,000 units and sells them at £6 each. **Total cost** = 2,000 + 3,000 = £5,000. Revenue = £6,000. Profit = £1,000. Average cost = £5 per unit.

Key terms

Fixed costs	Costs that don't change with output.
Variable costs	Costs that change with output.
Total cost	Fixed costs plus variable costs.
Average cost	Total cost divided by output.
Total revenue	Price multiplied by quantity sold.
Profit	Total revenue minus total cost.
Economies of scale	Falling average costs as a firm grows.
Diseconomies of scale	Rising average costs when a firm grows too big.

Quick questions

Cover the answers and test yourself: remembering is what makes it stick.

1. Which is a fixed cost?
2. How is total cost calculated?
3. How is profit calculated?
4. A firm sells 500 items at £4 each. What is its total revenue?
5. Total cost is £3,000 for 600 units. What is the average cost?
6. What are economies of scale?
7. Which is an example of an economy of scale?
8. What causes diseconomies of scale?

Answers

1. Rent
2. Fixed costs plus variable costs
3. Total revenue minus total cost
4. £2,000
5. £5
6. Falling average costs as a firm grows
7. Discounts from bulk buying
8. Poor communication and coordination in a very large firm

What to do next

Practise 10 questions on this topic

Try 3 exam questions, with mark schemes

Your notes

Read the lesson, one step at a time

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