

# Guided Reading Activity

## Supply

### Lesson 3 *Cost, Revenue, and Profit Maximization*

#### Review Questions

**Directions:** Read each main idea. Use your textbook to supply the details that support or explain each main idea.

#### A. Finding Marginal Cost

**Main Idea:** A business must calculate the cost of production and relate it to the price of its product in order to meet all expenses and then make a profit.

- 1. Detail:** Rent, executive salaries, and taxes are just some of the \_\_\_\_\_ costs faced by businesses. The total amount of these costs is sometimes called \_\_\_\_\_.
- 2. Detail:** The costs associated with \_\_\_\_\_ and materials may change, so these costs are called \_\_\_\_\_ costs.
- 3. Detail:** The \_\_\_\_\_ of fixed and variable costs is called \_\_\_\_\_ cost.
- 4. Detail:** The \_\_\_\_\_ cost a business has when it produces one more unit of output is called \_\_\_\_\_ cost.

#### B. Finding Marginal Revenue

**Main Idea:** There are several types of revenue, or income, that a business earns through production. Each type is important and must be factored into production and pricing.

- 1. Detail:** Average \_\_\_\_\_ is simply the \_\_\_\_\_ price each unit of product sells for.
- 2. Detail:** If you \_\_\_\_\_ the number of units of product sold by the average price of each unit, you get the business's \_\_\_\_\_ revenue.
- 3. Detail:** \_\_\_\_\_ revenue is the extra income a business gets from the production and sale of \_\_\_\_\_ additional unit of output.

# Guided Reading Activity *cont.*

## Supply

### C. Profit Maximization and Break-Even

**Main Idea:** Every business wants to make a profit, but all businesses must at least make enough money to cover expenses.

- 1. Detail:** When business owners think about \_\_\_\_\_, they must consider both cost and revenue from \_\_\_\_\_.
- 2. Detail:** The profit-maximizing quantity of output is the level of production at which marginal \_\_\_\_\_ is equal to marginal \_\_\_\_\_.
- 3. Detail:** Every firm must reach its \_\_\_\_\_ - \_\_\_\_\_ point, at which it has enough money from sales to cover all its \_\_\_\_\_.
- 4. Detail:** Business, especially sales, conducted electronically over the \_\_\_\_\_ is known as \_\_\_\_\_.
- 5. Detail:** With online selling, the \_\_\_\_\_ costs are very low, and the \_\_\_\_\_ - \_\_\_\_\_ point is also lower than it would be in a real store.

### Summary and Reflection

**Directions:** Summarize the main ideas of the lesson by answering the questions below.

Suppose you choose a career as a carpenter. You want to sell the wood products you make in the most profitable way possible, and you want to reach as many customers as you can. Where would you sell your goods to maximize your profits? What are the advantages and disadvantages of opening your own store? What are the advantages and disadvantages of selling your products on the Internet via an e-commerce website?

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