

3.7 Firms' Costs, Revenue & Objectives

Question Paper

Course	CIE IGCSE Economics
Section	3. Microeconomic Decision Makers
Topic	3.7 Firms' Costs, Revenue & Objectives
Difficulty	Medium

Time allowed: 70
Score: /52
Percentage: /100

Question 1

There is a range of factors that influence the supply of economic goods, including natural disasters. Recently a series of earthquakes in one country destroyed buildings, including factories and offices. One factory that survived has since increased its scale of production. This firm has employed more factors of production and has experienced a fall in its average cost of production.

Discuss whether or not the average cost of production always falls when a firm increases its scale of production.

[8 marks]

Question 2

Identify two variable costs of producing palm oil.

Refer to the [source material](#) in your answers

[2 marks]

Question 3

Explain the effect that a rise in the price of flowers on Women's Day in Russia would be likely to have on flower producers' revenue.

Refer to the [source material](#) in your answers

[2 marks]

Question 4

In 2017, the Brazilian paper industry was booming. Its total revenue increased and it employed both more, and better quality, factors of production. Brazil's largest paper producer merged with an Indonesian paper-producing firm at the end of 2017. The performance of Brazil's coffee industry differed from its paper industry. Brazilian coffee experienced a fall in demand and a fall in total revenue.

Define *total revenue*.

[2 marks]

Question 5

More agricultural markets come close to perfect competition than markets for manufactured goods and for services. The goals of business organisations can vary between markets, and within markets. In 2017, the Nigerian government used supply-side policy measures to influence the goals and performance of firms in a range of markets and to lower firms' average costs of production

Explain two goals a business organisation may have

[4 marks]

Question 6

The price elasticity of demand (PED) for sugar in most countries is less than 1. In 2017, the price of sugar fell. However, the price of specialised, higher quality sugar grown in countries such as Mauritius fell by less than the average global price. Efficient producers, such as some farmers in Brazil that have a low fixed cost of production, were also less affected by the fall in price

Analyse the possible reasons why a producer's fixed cost may increase

[6 marks]

Question 7

In 2016, Argentina's annual inflation was 20%, down from 40% in 2015. Inflation had been high since 2003. Wages were constantly adjusted upwards. In addition, some employees demanded more non-wage benefits. Industrial action, often in the form of strikes called by trade unions, became more common in Argentina.

Discuss whether or not an increase in wages will reduce a firm's profit.

[8 marks]

Question 8

Changes in the supply of enterprise result in the development of new firms. In 2016, a theme park in Hong Kong made a loss with visitor numbers falling by 9%. In 2017, the same public limited company opened another larger theme park in Shanghai. The new theme park is expected to benefit from both internal and external economies of scale.

Define a *loss*.

[2 marks]

Question 9

The mobile (cell) phone industry is growing in Asia with more workers being employed. In March 2017, there was a merger between two mobile phone producers, both of which had relatively high fixed costs. This merger created one of the largest mobile phone firms and moved the Asian market further from perfect competition and closer to monopoly. It was expected that profits in the industry would increase as a result of the merger.

Identify **two** fixed costs.

[2 marks]

Question 10

Identify, from the extract, **two** goals of business organisations.

Refer to the [source material](#) in your answers.

[2 marks]

Question 11

A United Arab Emirates (UAE) airport announced a record profit of \$1.9 billion in 2016. This was despite a fall in its total revenue. In 2016, the UAE considered introducing Value Added Tax (VAT). The introduction of an indirect tax may have an impact on unemployment. The UAE has a very low unemployment rate which is one reason why multinational companies (MNCs) set up in the UAE.

Define *total revenue*.

[2 marks]

Question 12

A United Arab Emirates (UAE) airport announced a record profit of \$1.9 billion in 2016. This was despite a fall in its total revenue. In 2016, the UAE considered introducing Value Added Tax (VAT). The introduction of an indirect tax may have an impact on unemployment. The UAE has a very low unemployment rate which is one reason why multinational companies (MNCs) set up in the UAE.

Explain how a firm may earn a profit despite a fall in revenue.

[4 marks]

Question 13

In 2016, the world shortage of peanuts increased their price. China, which has traditionally been a net exporter of peanuts, was about to become a net importer. South Africa, which is an exporter of high-quality, high-cost peanuts used in chocolate confectionery, experienced the worst drought on record. A higher number of South African farmers applied for bank loans in the same year.

Explain the difference between the price of a product and the cost of a product?

[2 marks]

Question 14

In England football stadiums are usually built and financed by the private sector, but in some countries the stadiums are built and financed by the government. Many football stadiums in the English Premier League are full on match days. In the short run the supply of seats is perfectly inelastic. The football clubs could actually raise prices, still sell their tickets and so raise their profits. Premier League footballers currently receive very high wages.

Explain two reasons why a firm may not aim to earn maximum profit.

[4 marks]

Question 15

Identify two fixed costs of production in Fig. 1.

Refer to the [source material](#) in your answers.

[2 marks]