Chapter 29 Sales Revenue and Cost

Key terms

1. Average cost or unit cost: cost of producing one unit, calculated by dividing the total cost by output.
2. Fixed cost: a cost that does not change as a result of a change in output in the SR. e.g. machines, rent
3. Variable cost; costs that rise as output rises. e.g. raw material, wage
4. Semi variable cost; costs that consist of both fixed and variable elements. e.g. labour cost, electricityLimited liability & unlimited liability : depend on legal status.
5. Total cost: the entire cost of producing a given level of output.
6. Total revenue: the amount of money the business receives from selling output.
7. Profit (loss) = the difference total cost and total revenue. It can be negative(meaning: loss)
8. Long run: time period where all factors of production are variable.
9. Short run: time period where at least one factor of production is fixed.
10. Sale volume : the quantity of output sold in a particular time period
11. Sale revenue: the value of output sold in a particular time period. Variable cost; costs that rise as output rises. e.g. raw material, wage

1. Revenue

- **Sale volume :** the quantity of output sold in a particular time period
- **Sale revenue:** the value of output sold in a particular time period.

Sale revenue = Price x Quantity

2. Business costs

Cost in short run and long run

- **In the short run**; at least one factor of production is fixed. e.g. machines.
- **In the long run**; all costs are variable. firms can employ more labour & capital in LR

Total cost; the entire cost of producing a given level of output.

Total cost = Fixed cost + Variable cost

- **Fixed cost**; a cost that does not change as a result of a change in output in the SR. e.g. machines, rent
- **Variable cost**; costs that rise as output rises. e.g. raw material, wage
- **Semi variable cost**; costs that consist of both fixed and variable elements. e.g. labour cost, electricityLimited liability & unlimited liability : depend on legal status.

Average cost or unit cost : cost per unit of production (unit cost)

Average cost = Total cost / Quantity

3. Profit and Loss

Profit (loss) = the difference total cost and total revenue. It can be negative(meaning: loss)

Profit = Total Revenue - Total Cost

- Total revenue = the amount of money the business receives from selling output.
- Total cost = the entire cost of producing a given level of output TC = FC + VC

<u>Way of improving sales volume</u>

1. **Advertising** ⇒ can create want, sales, brand loyalty.

2. **Promotion** ⇒ e. g. sponsorship, free gifts, loyally schemes

3. **Improving targeting** ⇒ It should be aimed more accurately at the people who are most likely to purchase the product.

4. **Extend product range** ⇒ increase the range of products for sale.

5. **Extend distribution networks** ⇒ sell products in global market, rising in number of retailers.

6. **Develop relationships with customers** ⇒ improve customer retention and encourage repeat purchases.

2 Methods of improving sales revenue

1) Changing price: if demand for the product is price inelastic, a firm should increase its price, as the quantity demanded will fall by smaller proportion resulting in higher revenue.

2) Adding complementary services or products