4.2 Costs, Scale of Production and Break-Even Analysis

What are the components in a breakeven analysis and their formulas?

1. Revenue
2. Fixed Cost
3. Variable Cost
4. Total Cost = Fixed Cost + Variable Cost
5. Profit = Revenue – Total Cost
6. Total Variable Cost = Variable cost per unit x total output
7. Average cost per unit = Total cost / Total output
8. Profit (or loss) per unit = Selling price per unit – Average cost per unit
9.

$$\text{Break-even output level} = \frac{\text{Total fixed cost}}{(\text{Price per unit} - \text{Variable cost per unit})}$$

Why do businesses increase the scale of production?

To achieve economies of scale. Type of economies of scales.

1. Purchasing economies
2. Marketing economies
3. Risk bearing economies
4. Technical economies
5. Financial economies

Can a large scale of production be a problem to a business?

Business may experience diseconomies of scale. They are mostly either:-

1. Management diseconomies
2. Labour diseconomies

Download mind map ***HERE***
Practice past year exam questions by topic ***HERE***
Schedule a tutorial ***HERE***
Download more notes
Unit 1 – Understanding Business Activity
Unit 2 – People in Business
Unit 3 – Marketing
Unit 4 – Operations Management
Unit 5 – Financial Information and Decisions
Unit 6 – External Influences on Business Activity