
INVESTMENT
GROWTH
GOAL
STRATEGY
REVENUE
INNOVATION
MARKETING
TEAMWORK
MANAGEMENT

REVENUE

It refers to the money earned by a firm by selling its products.

TOTAL REVENUE

It is the money earned by selling all the units of a commodity produced.

TR = P X Q

P – Price   Q – Quantity

TR = AR X Q

- AR – Average Revenue   Q – Quantity Sold.

TR = Σ MR

MR – Marginal Revenue

AVERAGE REVENUE

- Average Revenue is the revenue per unit of output.
- It can be calculated by dividing total revenue with the number of units sold.

$$AR = \frac{TR}{Q}$$

MARGINAL REVENUE

It is the addition to total revenue when the firm sells one more unit of output.

$$MRn = TRn - TR\ n\text{-}1$$

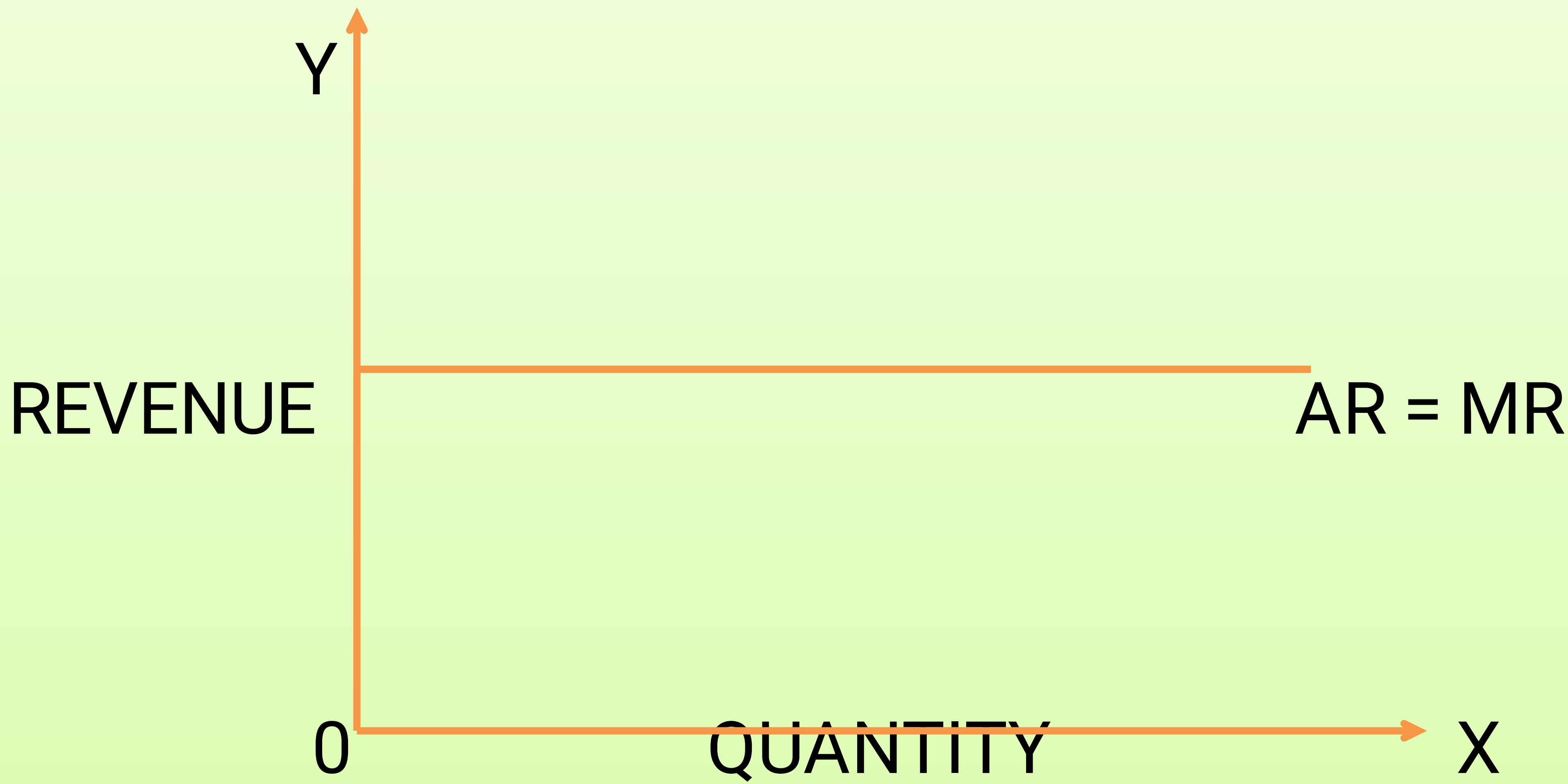
$$MR = \frac{\Delta TR}{\Delta Q}$$

Relationship between AR and MR in a Perfectly Competitive Market

- Price remains constant in a perfectly competitive market. The firm can sell any output at the market fixed rate.
- So, Marginal Revenue and Average Revenue are equal and remain constant.
- AR and MR curve are one and the same and it is a horizontal line parallel to X axis.

$$AR = MR = Price$$

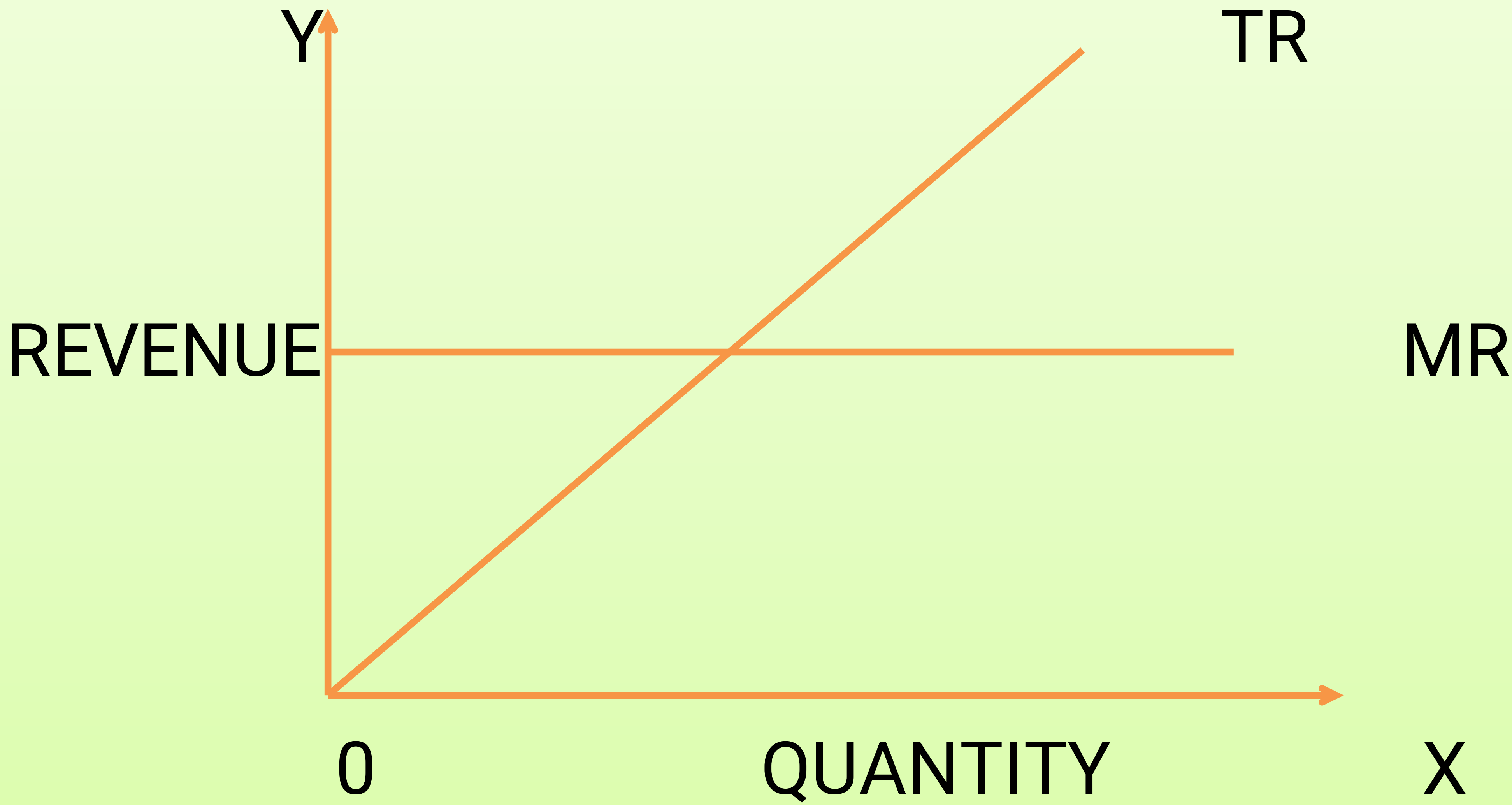
AR and MR when price remains constant (Perfect Competition)



Relationship between TR and MR in a Perfectly Competitive Market

- Price remains constant in a perfectly competitive market. The firm can sell any output at the market fixed rate.
- So, Marginal Revenue remains constant.
- MR curve is a horizontal line parallel to X axis.
- AS MR is constant TR increases at a constant rate. TTR curve will be a 45 line starting from the origin.

- RELATIONSHIP BETWEEN TOTAL REVENUE AND MARGINAL REVENUE IN A PERFECTLY COMPETITIVE MARKET



- SCHEDULE THAT SHOWS RELATIONSHIP BETWEEN TR, AR AND MR IN A PERFECTLY COMPETITIVE MARKET

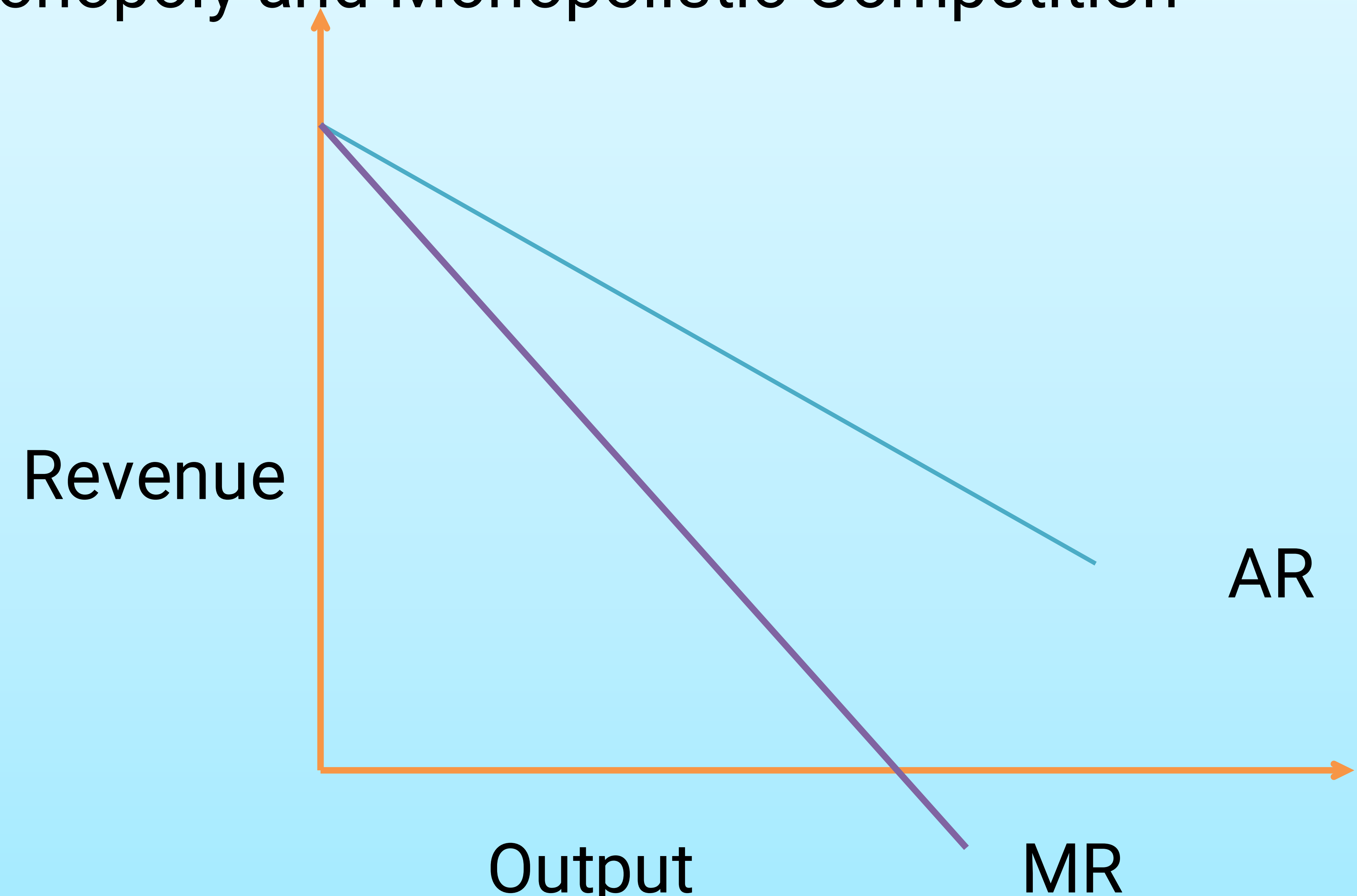
OUTPUT	AR	TR	MR
1	5	5	5
2	5	10	5
3	5	15	5
4	5	20	5

- RELATIONSHIP BETWEEN AR AND MR WHEN PRICE FALLS WITH RISE IN OUTPUT(MONOPOLY AND MONOPOLISTIC COMPETITION)
- Under Monopoly and Monopolistic competition the firm has to reduce price if it wants to sell more output.
- So, revenue from every additional(MR) unit will be less than Average Revenue.
- Both AR and MR falls as output increases but MR falls faster than AR.
- MR curve will be below the AR curve.

- SCHEDULE

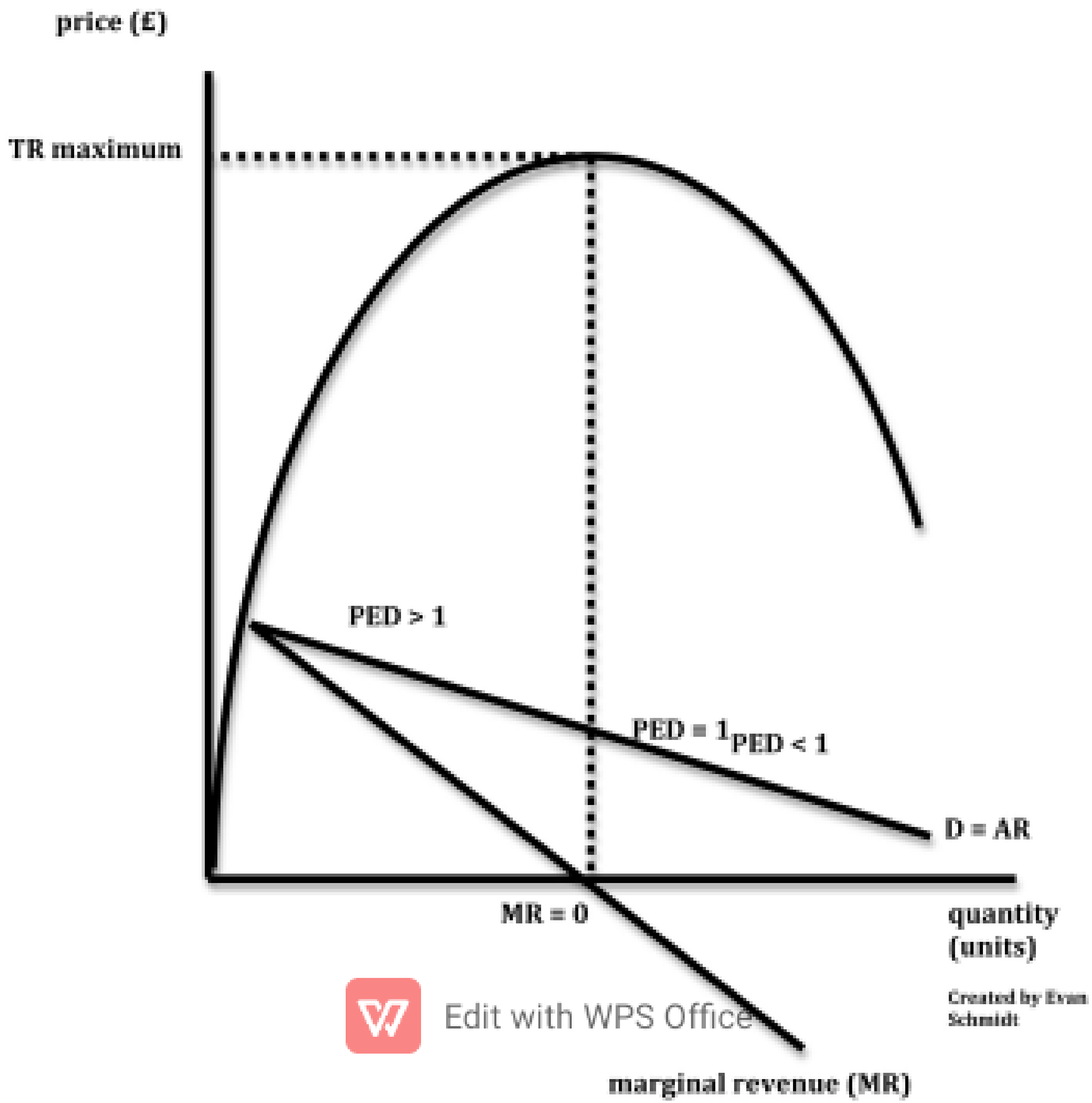
Units Sold	TR	AR	MR
1	5	5	5
2	8	4	3
3	9	3	1
4	8	2	-1
5	5	1	-3

Relationship between AR and MR in Monopoly and Monopolistic Competition



Relationship between TR and MR when price falls with rise in output(monopoly and monopolistic competition)

- When MR is positive TR increases.
- When MR is zero TR is maximum.
- When MR is negative TR falls.



price (£)
TR maximum
PED > 1
PED = 1
PED < 1
D = AR
MR = 0
quantity
(units)
Created by Evan
Schmidt
marginal revenue (MR)

THANK YOU