

How many must a business sell to cover its costs, and does growing make each unit cheaper?

Syllabus section 4.4 Costs, scale of production and break-even analysis

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Running case: Al Noor Frames · 55 minutes

How this topic is examined

Paper 1 • Short answer and data response

Define [2] • Calculate [2] • Identify [2]

Outline [4] • Explain [6]

Explain two... Which is most important? [6]

Do you think... Justify your answer [6]

Paper 2 • Case study

Explain two ways... / two limitations... [8]

Consider two options. Use break-even calculations to support your answer. Which should the business choose? [12]

Typical questions on this topic

Define 'fixed costs' or 'margin of safety'. [2]

Calculate the break-even level of output for [business]. Show your working. [2]

Outline two ways [business] could lower its break-even level of output. [4]

Explain two diseconomies of scale [business] might face as it grows. [6]

Do you think break-even analysis is useful to a business? Justify your answer. [6]

Consider two options. Use break-even calculations. Which should [business] choose? [12]

By the end of this lecture you can...

- 1 Define and classify fixed, variable, total and average costs.
- 2 Calculate total cost, average cost, revenue and profit.
- 3 Calculate contribution, break-even output and the margin of safety.
- 4 Draw and read a break-even chart, and show the effect of changes.
- 5 Explain the uses and limitations of break-even analysis.
- 6 Explain economies and diseconomies of scale.

END OF PREVIEW

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