RAFFLES INSTITUTION
YEAR 5 H2 ECONOMICS 2024

FIRMS AND DECISIONS (PARTS 1 & 2)

SUPPLEMENTARY WORKSHEET

Question 1

a. Explain how firms maximise profits.

b. Explain why firms can sometimes aim to revenue maximise.

c. Explain what is meant by profit satisficing.

Question 2

Imagine that you are the owner of an ice-cream shop like Baskin Robbins.

a. Using an example in the context above, explain what fixed cost.

b. Using an example, explain what variable cost is.

c. Which of the following is likely to be fixed costs or variable costs for a chocolate factory over the course of a month?

Example	Fixed or Variable costs
Overtime pay	
Wear and tear on wrapping machines.	
Interest on a mortgage for the factory: the rate of interest rises over the course of the month.	

d. Distinguish between internal and external economies of scale.

e. For each of the following examples,

f. State if the economies of scale is internal or external

g. Identify the type of internal/external economies of scale

h. Identify how a firm's LRAC would be affected

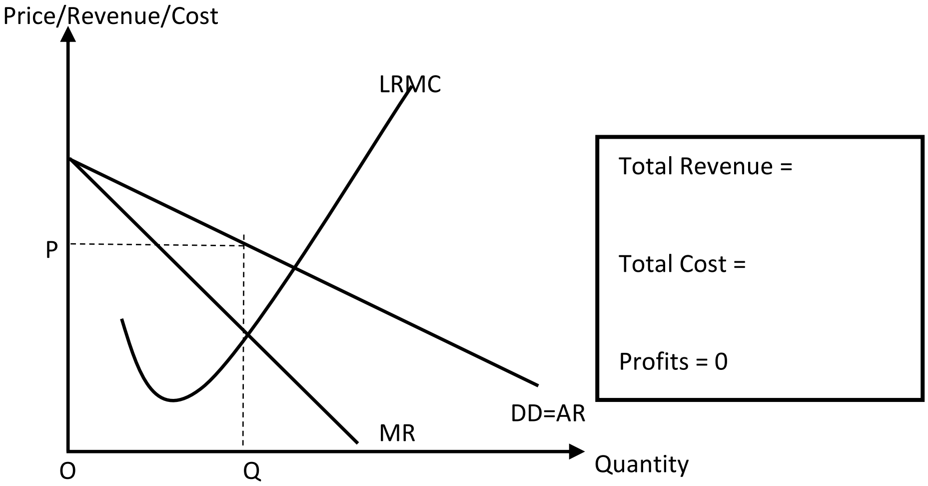
Example	State if internal / external EOS	Identify the type / reason of EOS	Changes to LRAC:
Listed companies can finance their operations through public issue of shares.			
A wafer fab producer benefits from R&D findings by leading players in the industry.			
Firms employ specialists to improve the efficiency of different stages of production.			

Diagram drawing practices

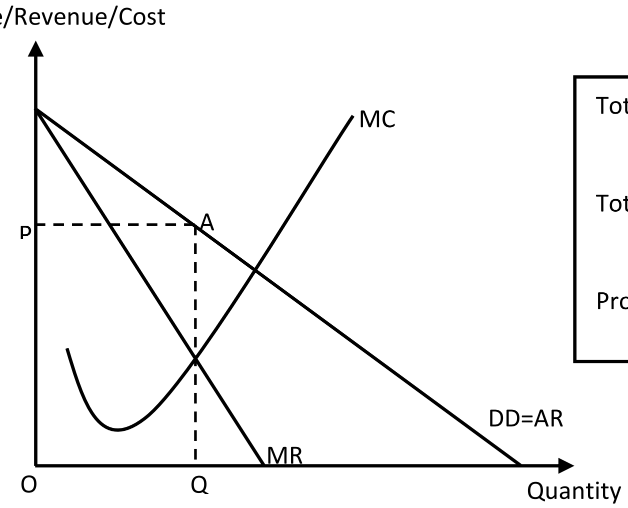
i. With the aid of appropriate diagrams, illustrate how the profit maximising equilibrium of a **PC firm** and that of a **monopolist** is derived.

Profit maximising equilibrium of PC firm	Profit maximising equilibrium of Monopolist

j. Complete the diagram below by drawing in the **LRAC** to illustrate the long run equilibrium of a **monopolistically competitive firm** making **normal profits in the long run**.



k. Complete the diagram below by drawing in the **LRAC** to illustrate the long run equilibrium of an **oligopoly** firm making **supernormal profits in the long run**.



Total Revenue = 0PAQ
Total Cost =
Profits =

l. With respect to the diagram below, illustrate the **LRAC** and **LRMC** of a **natural monopoly** and determine the **profit maximising equilibrium** of the natural monopoly.