

GUIDED READING Activity 5-3

For use with textbook pages 127–131

COST, REVENUE, AND PROFIT MAXIMIZATION

FILLING IN THE BLANKS

Directions: Use your textbook to fill in the blanks using the words in the box. Some words may be used more than once. Use another sheet of paper if necessary.

| | | |
|-------------------|-------------------|----------------|
| overhead | total costs | marginal costs |
| variable costs | total revenue | e-commerce |
| marginal analysis | marginal revenues | fixed costs |

Measures of Cost

Cost is divided into several categories. The first is **1** _____—the costs that a business incurs even if the plant is idle and there is zero output. The total of these unchanging costs, or **2** _____, remains the same. On the other hand, expenses that change—such as one associated with labor and raw materials—are **3** _____. The sum of these two costs is **4** _____. Another category of cost is **5** _____ the extra costs incurred when a business produces one additional unit of a product.

Applying Cost Principles

Business firms have a different mix of costs. A full-service gas station may have higher **6** _____ than one that sells only gas, because it employs a variety of employees. An entrepreneur engaged in **7** _____—electronic business or exchange conducted over the Internet—is an example of a business with very low **8** _____.

Measures of Revenue

Businesses use two key measures of revenue to find the amount of output that produces the greatest profit. **9** _____ is the number of units sold multiplied by the average price per unit. Even more important are **10** _____, which are the extra revenues associated with the production and sale of one additional unit of output.

Marginal Analysis

Economists use **11** _____, a type of cost-benefit decision making tool that compares the extra benefits to the extra costs of an action. One issue facing a business is that of breaking even, or earning enough revenue to cover **12** _____. Businesses want to know how to generate the maximum profit. They can do so by comparing **13** _____ and **14** _____.