



# Edexcel A - A Level Economics

## Theme 3 – Business behaviour and the labour market

### 3.2 Business Objectives

#### Worked Examples

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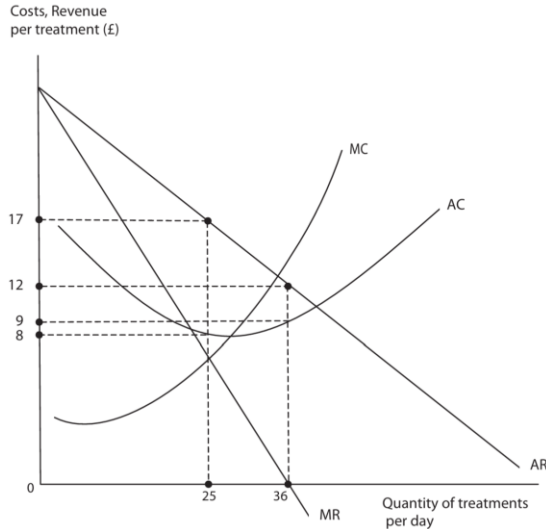
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- Business objectives

## 3.2 Business objectives

### Exam Style Question 1

Emily owns and operates a nail ink salon. The diagram shows the cost and revenue curves for treatments at her nail ink salon. Initially, Emily sets her price to maximise profits.



- (a) Calculate the **change in total supernormal profit** if Emily changes her objective from profit maximisation to revenue maximisation. You are advised to show your working. [4]
- (b) Emily now decides to change her objective from revenue maximisation to sales maximisation. This change will lead to:
- [1]
- A A decrease in the number of customers
- B A decrease in the price of treatments
- C An increase in productive efficiency
- D An increase in the level of profit

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## 3.2 Business objectives

### Exam Style Question 1

**Answer:**

**(a) Calculate the change in total supernormal profit**

To calculate **supernormal profit**, we use the formula:

**Supernormal profit = (Price - Average Cost) × Quantity**

**At the profit maximisation point (MC = MR):**

- Price = £17; Average Cost (AC) = £8; Quantity = 25
- Supernormal profit =  $(17 - 8) \times 25 = £225$

**At the revenue maximisation point (MR = 0):**

- Price = £12; Average Cost (AC) = £9; Quantity = 36
- Supernormal profit =  $(12 - 9) \times 36 = £108$

**Change in supernormal profit:**

$225 - 108 = £117$  decrease

**Final answer:** The total supernormal profit decreases by £117. [4]

**(b) Emily now decides to change her objective from revenue maximisation to sales maximisation. This change will lead to:**

**Correct answer: B** – a decrease in the price of treatments. [1]

**Explanation:**

Sales maximisation happens when **AR = AC**. At this point, the firm sells as much as it can without making a loss, which usually means charging **lower prices** to attract more customers. This helps clear stock or boost customer numbers but doesn't focus on making high profits.

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### 3.1 Business growth

#### Exam Style Question 2

Lottie runs a tanning shop, and the following table shows her costs and revenue for one treatment at different price levels. Some parts of the table are left blank for your own calculations.

Number of customers per day	Price (£)			Total costs (£)	Marginal costs (£)
0	20			30	
1	18				2
2	16				3
3	14				4
4	12				6
5	10				10

At what price range would Lottie maximise her profits?

- A £20 or higher
- B £18-£20
- C £16
- D £12-£14
- E £10

Answer

Explanation [3]

We've added more guidance, but for the exam, just fill out the table and use the last few lines as your explanation.

[1]



### 3.1 Business growth

#### Exam Style Question 2

Answer:

At what price range would Lottie maximise her profits?

**Profit maximisation:** Marginal Revenue (MR) = Marginal Cost (MC)

But wait, we don't have MR directly, so here's the trick: When price drops as more customers are added, it suggests **marginal revenue is less than price**. So, we want to find the **last unit where  $MR \geq MC$**  (or close).

Let's estimate MR by seeing how **total revenue** changes: (Remember: **Total Revenue (TR) = Price × Quantity**)

Number of customer per day	Price (£)	TR	MR	Total costs (£)	Marginal costs (£)
0	20	0	-	30	
1	18	18	18	32 (30+2)	2
2	16	32	14 (32-18)	35 (32+3)	3
3	14	42	10 (42-32)	39 (35+4)	4
4	12	48	6 (48-42)	45	6 ✓
5	10	50	1 (50-48)	55	10 ✗

At 4 customers:  $MR = MC = £6$ . That's the profit-max level of output. At this point, the price charged is £12. Therefore, answer is **D (£12-£14)**.

### 3.1 Business growth

#### Exam Style Question 3

The management at a famous football club aim to promote the firm's success in matches as their primary objective. The firm's shareholders indicate at a meeting that they will accept low dividends on their shares on the condition that the club invests in new players. This indicates that the

[1]

- A Management is aiming for short-term gains in share prices
- B Management is profit satisficing
- C Management is profit maximising in the short run
- D Firm cannot make supernormal profits in the long run
- E Average variable cost of players is equal to the marginal revenue gained from their employment

Answer

Explanation [3]



### 3.1 Business growth

#### Exam Style Question 3

Answer:

B – Management is profit satisficing [1]

Explanation:

**Profit satisficing** is when managers aim to make *just enough profit* to satisfy the basic expectations of owners or shareholders, while also pursuing other goals. [1]

In this case, the football club's management is more focused on *winning matches* than maximising profits. [1] The shareholders are even *willing to accept lower dividends* (payouts from profits) as long as the club invests in new players, clearly showing that **maximising profit isn't their top priority**. [1]

**✗ Knock out marks:**

- **A:** It's not about short-term gains in share prices – it's about team performance.
- **C:** Profit maximisation means squeezing every last penny of profit, but here they're choosing to invest in players instead.
- **D:** There's no info here about long-run profit limits.
- **E:** That's a technical point about marginal analysis, but this question is about business objectives, not cost structures.

### 3.1 Business growth

#### Exam Style Question 4

The table gives weekly information about the possible short run output, costs and revenue of a firm making military equipment. Some cells have been left blank for your own workings.

Output per week	Total revenue (£millions)	Average revenue (£millions)	Total cost (£millions)	Average cost (£millions)	Marginal cost (£millions)
0	0	-	10	-	-
1	40	40		25	15
2	60				9
3	78				18
4	96				44
5	105				54

Which level of weekly output would mean that the firm is sales maximising?

- A 1  
 B 2  
 C 3  
 D 4  
 E 5

[1]

Answer

Explanation [3]



### 3.1 Business growth

#### Exam Style Question 4

Answer:

D – 4. [1]

Explanation: 3 marks

2 marks for filling in the table correctly.

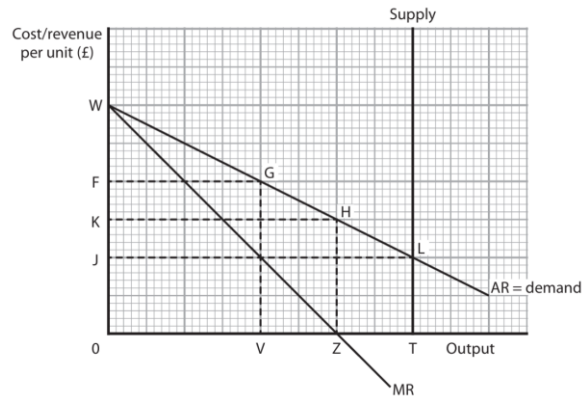
Output per week	Total revenue (£m)	Average revenue (£m)	Total cost (£m)	Average cost (£m)	Marginal costs (£m)
0	0	-	10	-	-
1	40	40	25 (10+15)	25	15
2	60	30 (60/2)	34 (25+9)	17 (34/2)	9
3	78	26 (78/3)	52 (34+18)	17.3 (52/3)	18
4	96	24 (96/4)	96 (52+44)	24 (96/4)	44
5	105	21 (105/5)	150 (96+54)	30 (150/5)	54

**Sales maximisation** is a business objective where a firm wants to sell as much output as possible **without making a loss**. This happens at the output level where **total revenue (TR) = total cost (TC)**, also known as the **break-even point**. At output = 4; TR = TC = £96 million. [1]

### 3.1 Business growth

#### Exam Style Question 5

The diagram shows the supply, demand and marginal revenue schedules for parking spaces in a local government car park.



What single price will ensure that the local government maximises total revenue?

[1]

- A Zero
- B OJ
- C OK
- D OF
- E OW

Answer

Explanation [3]



### 3.1 Business growth

#### Exam Style Question 5

Answer:

C – OK. [1]

Explanation:

To **maximise total revenue**, the local government needs to set the **price where marginal revenue (MR) = 0**. [1]

Why? Because:

**Total revenue (TR)** increases as long as **MR is positive**. [1]

**TR is maximised** when **MR = 0**. After this point, MR becomes negative, which means each extra unit sold brings in *less* revenue than before, actually reducing total revenue. [1]

Please see the '3.2 Business Objectives Revision Notes' pack for detailed notes.

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