

Closing Tue: Sup 5

Closing Thu: Sup 6-7

Closing Next Tue: Sup 8-9

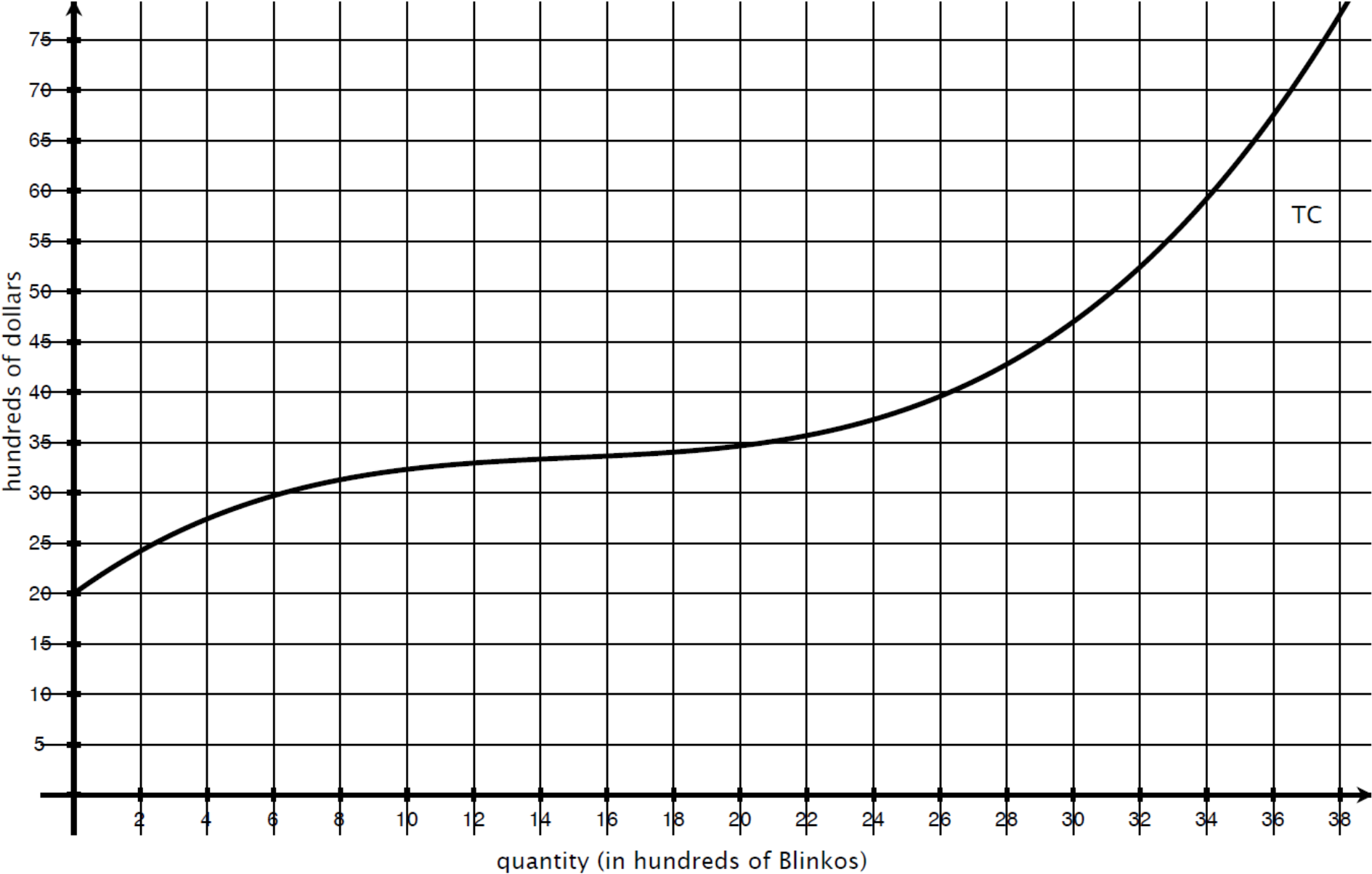
Supp. 7 and 8: Analysis of Cost

Entry Task: Get out the “Blinkos” graphs from the lecture pack.

1. Compute the slope of the tangent line at 600 Blinkos.
What are the units?
What does this represent?

2. At what quantity is the slope of tangent line equal to \$3/item?
What does this represent?

Blinkos (from the lecture pack)



Suppose we sell Blinkos at a price of \$2.00 per Blinko.

1. Draw the TR graph
2. How many quantities should you sell in order to maximize profit?

Max Profit Methods Summarized

Method 1: Largest Gap

Find the largest vertical gap when TR is above TC.

Pro = quick

Con = hard to be accurate

Method 2: MR = MC

Find where it switches from

$MR > MC$ to $MR < MC$

Note: $MR > MC \rightarrow$ profit increasing

$MR < MC \rightarrow$ profit decreasing

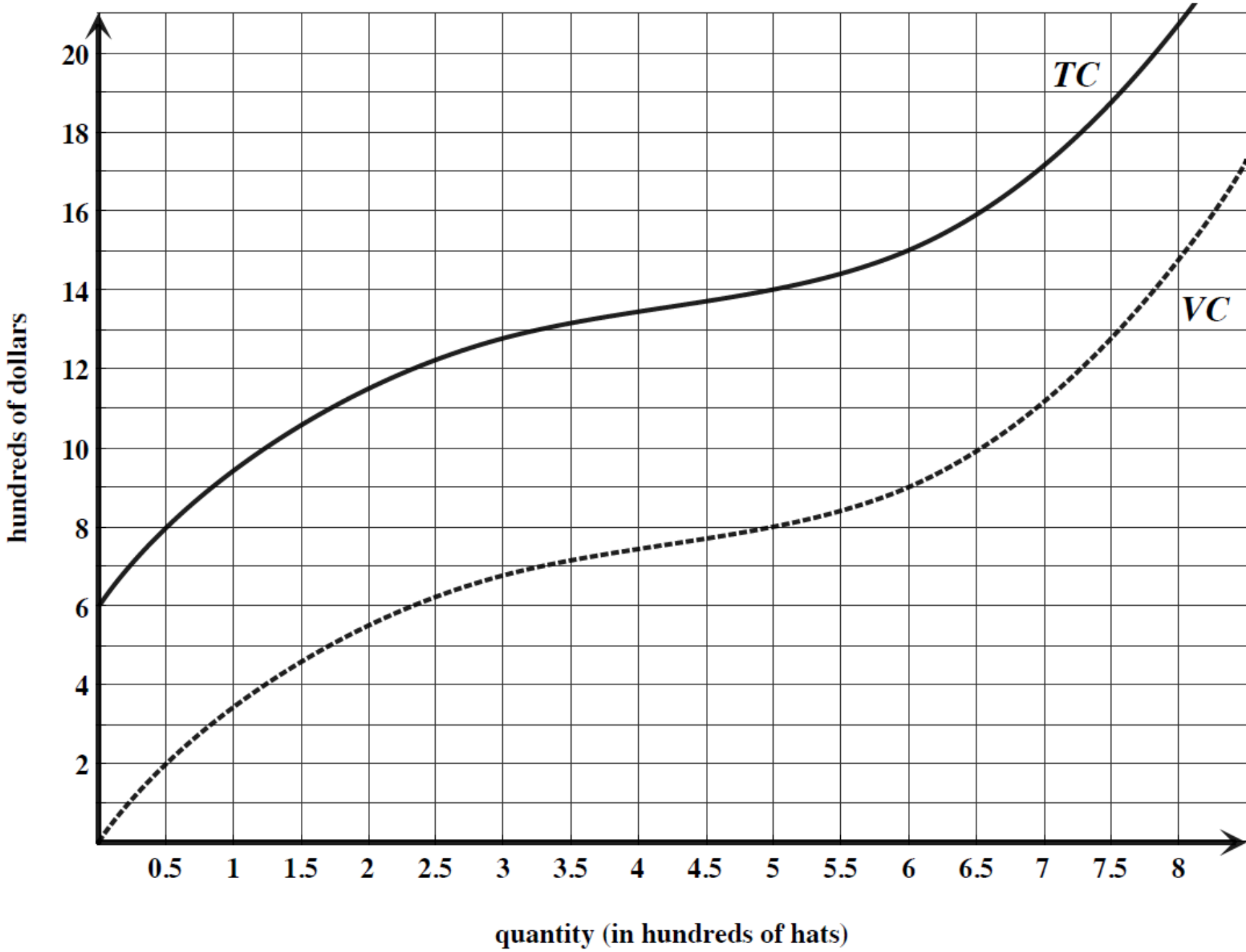
Pro = precise (algebra)

Con = need MR and MC

Method 3: Match Slopes

Find where TR and TC have the same tangent slopes. Best way if given TR and TC graphs!

Lecture pack graph (selling hats)



Break Even Price (BEP) is the **slope** of the lowest diagonal line that touches TC.

- If market price is smaller than BEP, then NO quantity will yield a positive profit.
- If market price is bigger than BEP, then it is possible to get a positive profit for some quantities.

Shutdown Price (SDP) is the **slope** of the lowest diagonal line that touches VC.

- If market price is smaller than SDP, then NO quantity will allow you to recover any fixed costs (Shut down!)
- If market price p is bigger than SDP, then it is possible to recover at least some fixed costs for some quantities.