IGCSE ECONOMICS · 1.2 BUSINESS ECONOMICS · CHAPTER 16 · PAPER 1

Business Costs, Revenues and Profit

Topic question sheet L16 | **Total: 29 marks** | **Time: 30 minutes** | **Student Book pp. 117–123**

Instructions: answer **all** questions. Write your answers on lined paper. The marks for each question are shown in brackets: use them as a guide to how much to write.

Calculators may be used. Show your working. Draw diagrams in pencil and label them fully. The mark scheme starts on a new page: do not look at it until you have finished.

Section A: Multiple choice

One mark each. Choose **one** answer: A, B, C or D.

1 If total cost is US$35 000 000 and output is 100 000 units, average cost is: **(1)**

A US$100 000 **B** US$35
C US$350 **D** US$3500

2 Variable cost is £10 per unit and fixed costs are £400 000. The total cost of 50 000 units is: **(1)**

A £900 000 **B** £450 000
C £4 000 000 **D** £500 000

3 Which of the following is a fixed cost for a bakery? **(1)**

A Flour **B** Packaging
C Rent **D** Electricity for the ovens

4 Profit is calculated as: **(1)**

A price × quantity **B** total revenue − total costs
C total fixed costs + total variable costs **D** total cost ÷ quantity

Section B: Short answers

Define, state, calculate, draw and explain. Show your working for calculations.

5 Define the term **variable costs**. **(1)**

6 Calculate Sunrise Bakery's total monthly cost at its current output. You are advised to show your working. **(2)**

7 Calculate the bakery's monthly profit at its current output. **(2)**

8 Calculate the average cost of a loaf at the current output. **(2)**

9 Draw a diagram showing total fixed cost, total variable cost and total cost. **(3)**

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Section C: Data response

Read the extract, then answer the questions. Use evidence from the extract in every answer.

Extract: Sunrise Bakery

Sunrise Bakery in Nairobi sells loaves of bread to shops. It pays KES 60 000 a month in rent and KES 20 000 a month for insurance and loan interest. Flour, yeast, packaging and the bakers' pay cost KES 40 per loaf.

The bakery sells 4000 loaves a month at KES 70 each. A supermarket chain has offered to buy an extra 2000 loaves a month, but only at KES 55 each. The bakery has enough spare oven space to make them.

Fictional case, written for this sheet.

10 With reference to the extract, analyse the effect on the bakery's profit of accepting the supermarket's order. **(6)**

11 With reference to the extract, assess whether Sunrise Bakery should accept the supermarket's order. **(9)**

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Mark scheme: Business Costs, Revenues and Profit

How to mark: Multiple choice, Define, State: 1 mark. **What is meant by** (2): two separate parts to the definition. **Calculate**: working and answer (with units). **Draw** (3): one mark per correct labelled feature. **Explain** (3): 1 for a point, 2 for developing it in context. **Analyse** (6): knowledge 2, application 2, analysis 2. **Assess** (9) and **Evaluate** (12) are marked by levels: choose the level that best fits the whole answer. Indicative content is a guide: credit other valid points.

Section A

1 *If total cost is US$35 000 000 and output is 100 000 units, average cost is: (1 mark)*

Answer: C (US$350). 35 000 000 ÷ 100 000 = 350.

2 *Variable cost is £10 per unit and fixed costs are £400 000. The total cost of 50 000 units is: (1 mark)*

Answer: A (£900 000). 400 000 + 500 000.

3 *Which of the following is a fixed cost for a bakery? (1 mark)*

Answer: C (Rent). Rent does not change with output.

4 *Profit is calculated as: (1 mark)*

Answer: B (total revenue − total costs). Definition.

Section B

5 *Define the term variable costs. (1 mark)*

Costs that change when the level of output changes (1).

6 *Calculate Sunrise Bakery's total monthly cost at its current output. You are advised to show your working. (2 marks)*

Working: TFC = 60 000 + 20 000 = 80 000; TVC = 4000 × 40 = 160 000 (1).

Answer: TC = KES 240 000 (1).

7 *Calculate the bakery's monthly profit at its current output. (2 marks)*

Working: TR = 4000 × 70 = 280 000; 280 000 − 240 000 (1).

Answer: KES 40 000 (1).

8 *Calculate the average cost of a loaf at the current output. (2 marks)*

Working: 240 000 ÷ 4000 (1).

Answer: KES 60 (1).

9 *Draw a diagram showing total fixed cost, total variable cost and total cost. (3 marks)*

Diagram: horizontal TFC line (1); TVC rising from the origin (1); TC parallel to TVC starting at TFC (1).

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Section C

10 *With reference to the extract, analyse the effect on the bakery's profit of accepting the supermarket's order. (6 marks · K2 · Ap2 · An2)*

Knowledge (2): extra revenue vs extra (variable) cost; fixed costs unchanged.

Application (2): 2000 × 55 = KES 110 000 extra revenue; 2000 × 40 = KES 80 000 extra cost.

Analysis (2): profit rises by KES 30 000 to KES 70 000 because price covers variable cost and fixed costs are already paid; AC falls to (80 000 + 240 000) ÷ 6000 = KES 53.3.

Knowledge 2 · Application 2 · Analysis 2.

11 *With reference to the extract, assess whether Sunrise Bakery should accept the supermarket's order. (9 marks · levels)*

For: profit rises by KES 30 000; spare capacity; average cost falls; a large regular customer.

Against: KES 55 is below the KES 70 charged to shops, so shops may demand a lower price; reliance on one big buyer; extra work may stretch staff; possible extra costs not in the figures.

Judgement: accept if existing customers will not find out or demand the same price, and if capacity is genuinely spare.

Levels: L1 1–3 (points listed, little use of the data) · L2 4–6 (developed points, some use of the data, limited evaluation) · L3 7–9 (developed points on both sides using the data, with a supported judgement).

Original practice questions written in the style of the Pearson Edexcel International GCSE Economics (4EC1) papers. This is not an official paper. Unless a source is given, the firms, countries and figures are fictional and made up for practice.

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