

7.1 The Basic Objective of Firms: Profit Maximisation

1. In a perfectly competitive market, a competitive firm

- can sell its products at any price it wants.
- cannot control the market price.
- can adjust its output level to maximise profit.

2. The table below shows the production information of a competitive firm. The firm has a fixed cost of \$5 and the market price of the good is \$30.

Output (units)	Total cost (\$)	Total revenue (\$)	Profit (\$)	Marginal cost (\$)	Marginal revenue (\$)
1	20				
2	30				
3	50				
4	80				
5	120				

(a) Complete the table.

(b) Under total analysis, the profit-maximising output of the firm is _____ units.

(c) Under marginal analysis, the profit-maximising output of the firm is _____ units.

3. Given a market price, if the fixed cost of a price taker increases, its profit-maximising output will (*increase / decrease / remain unchanged*).

4. Given a market price, if the marginal cost for each unit of output of a price taker increases by the same amount, its profit-maximising output will (*increase / decrease / remain unchanged*).

5. Given a market price, if the average cost for each unit of output of a price taker increases by the same amount, its profit-maximising output will (*increase / decrease / remain unchanged*).

7.2 The Supply Schedule of a Competitive Firm

6. The supply schedule of a competitive firm is determined by its (*average cost / marginal cost*) schedule.

7.3 Other Objectives of Firms

7. When a new market opens up, the firms may pursue a higher sales volume for a short period of time and they are likely pursuing the objective of _____.

8. If a firm participates regularly in charitable activities that are not aimed at making profit, it may be trying to pursue the objective of _____.

7.4 Expansion and Integration of Firms

9. A firm engages in (*internal / external*) expansion when it opens more branches.

10. A firm engages in (*internal / external*) expansion when it acquires another firm.

11. A shoe manufacturer acquires a leather factory.

(a) It is an example of _____ integration.

(b) List **THREE** possible motives for this type of integration.

12. Below shows some cases of business expansion. Identify the type of expansion and determine whether the expansion matches the firm's motive.

Case	Type of expansion	Does the expansion match the firm's motive?
(a) A car manufacturer opens a car retailing shop to increase its market share.		(Yes / No)
(b) A bookshop acquires a salon to spread risk through diversification.		(Yes / No)
(c) A bus company acquires another bus company to enjoy economies of scale.		(Yes / No)
(d) A retailer of ladies wear starts a new brand of kids wear to use resources more efficiently.		(Yes / No)