

Interpretation of a firm's graph

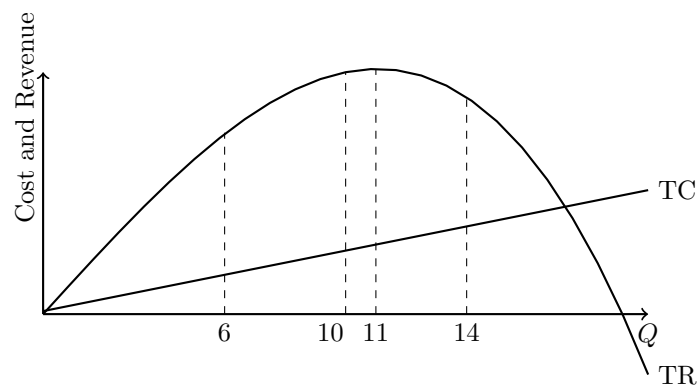
In the following graph, one can observe the total revenue (TR) and the total cost (TC) of a firm. At the same time, four possible quantities for production (6,10,11,14) are marked. In addition, we have:

$$TC(6) = 13 \text{ and } TR(6) = 60$$

$$TC(10) = 21 \text{ and } TR(10) = 80$$

$$TC(11) = 23 \text{ and } TR(11) = 82$$

$$TC(14) = 29 \text{ and } TR(14) = 72$$



Indicate which quantity the firm will produce and justify.

1. Indicate which quantity the firm will produce and justify.
2. Assume now that the firm experiences an increase in fixed cost, which increases by 5. Modify the graph and indicate the optimal production.

Answers

1. The quantity that yields the highest profit is 10 since at that point the difference between revenue and costs is maximized.
2. If the fixed cost increases, the quantity that maximizes profit remains 10 and the graph would be as follows:

