

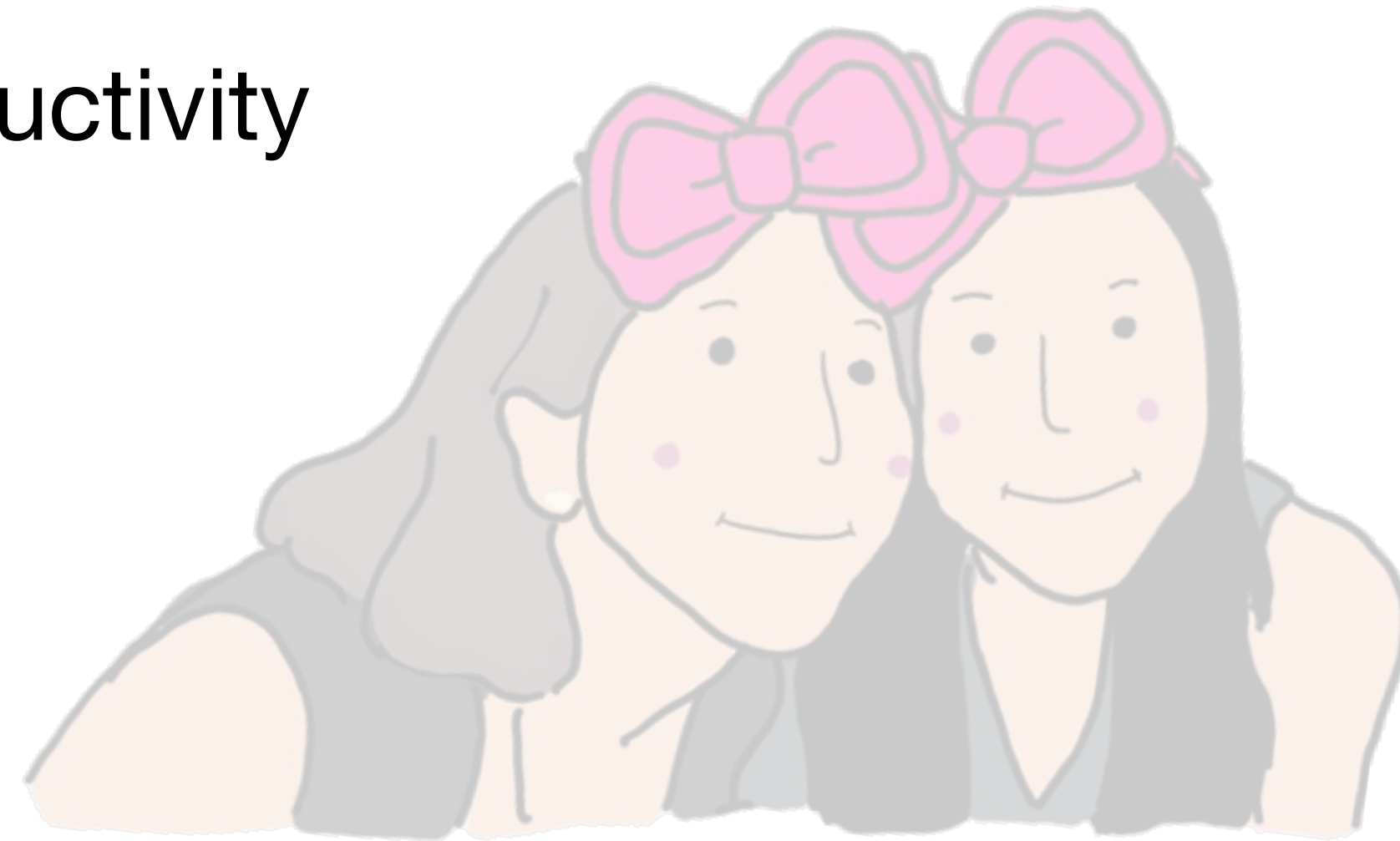


MICROECONOMICS - Firms and production

By Kru P'Eve and Kru P'Da Knockout.Economics

Overview

1. Labour-intensive and capital-intensive
2. Production and Productivity



1. Labour intensive and Capital intensive

Labour intensive

Capital intensive

Meaning

- Production mainly relies on using labour resources.

- Production mainly relies on using capital resources.

Reasons

1. Labour cost is relatively cheap comparing with capital cost.

➔ This is because a larger supply of labour in the country.

2. Producers may be too small to take advantage of capital equipment.

3. Handmade products can increase value of products

➔ Consumers are willing to pay high price for them.

1. Capital intensive can increase productivity.

➔ Advance technology can produce products faster, less error

2. Capital goods produce uniform standard products

3. Using capital intensive can avoid industrial action.

➔ It can continue production process even some workers are absent.

2. Production and Productivity

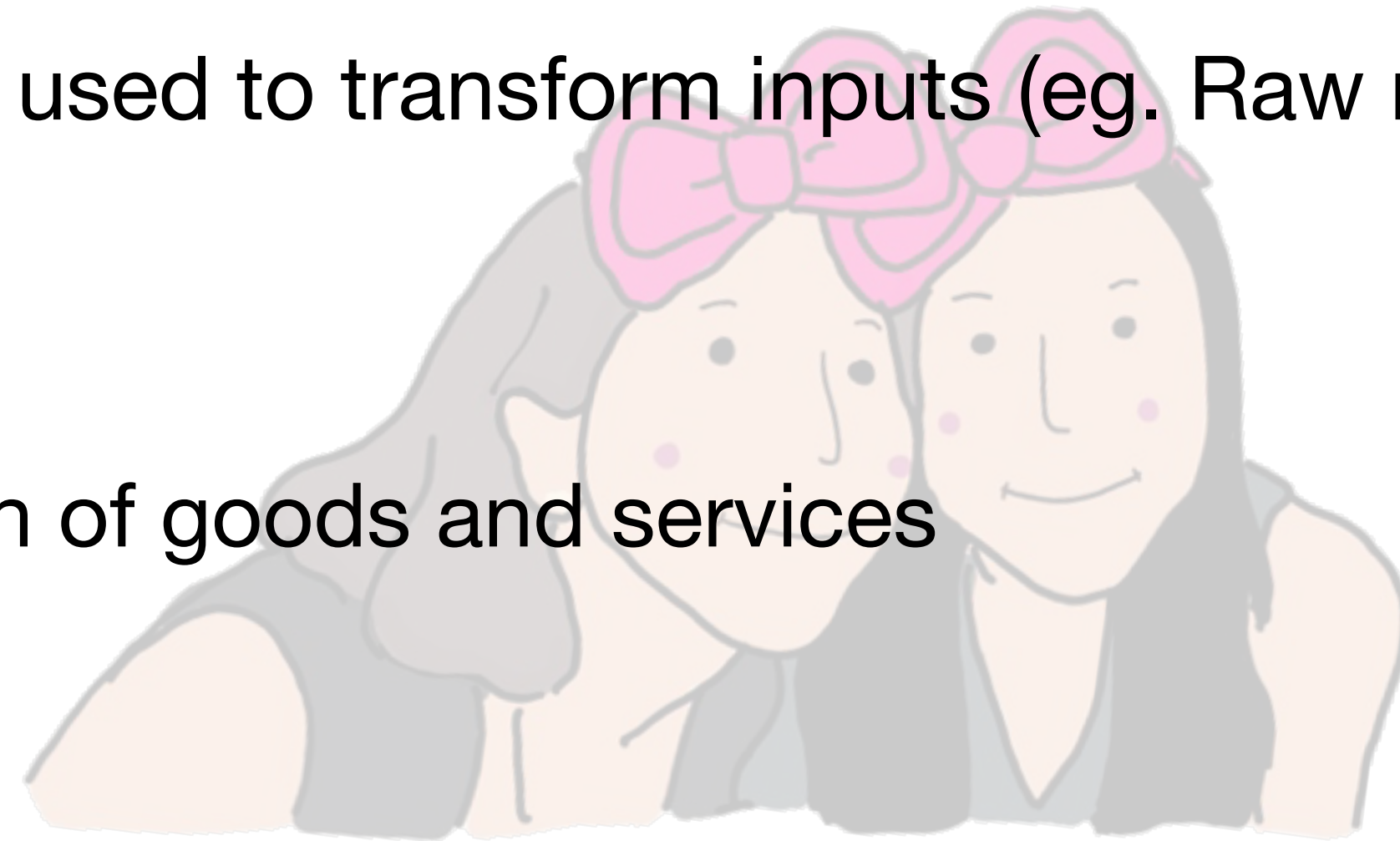
Production

: The processes and methods used to transform inputs (eg. Raw materials) into outputs.

Productivity

: is the efficiency of production of goods and services

: $\frac{\text{Total Output}}{\text{Total Input}}$



	Company A	Company B
Number of workers (manpower)	5	10
Total Output (Units)	500	2500
Productivity		

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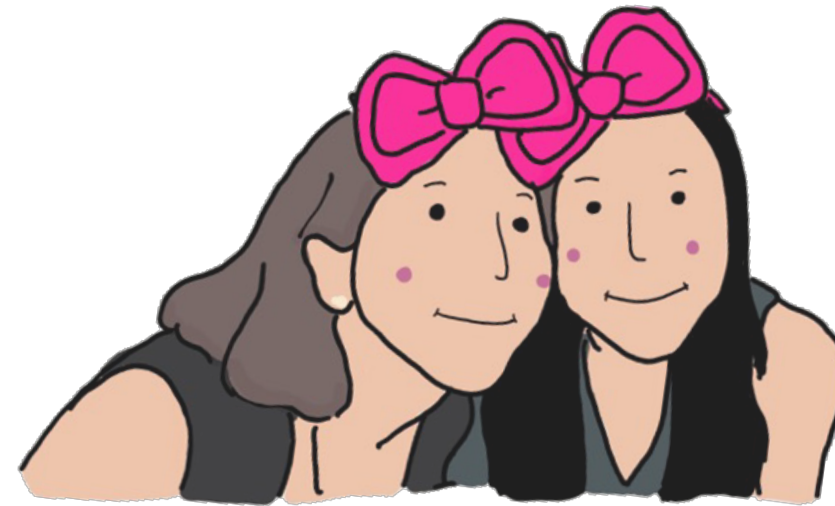
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MICROECONOMICS - Firms, Costs, Revenue and Objectives

By Kru P'Eve and Kru P'Da Knockout.Economics

Overview

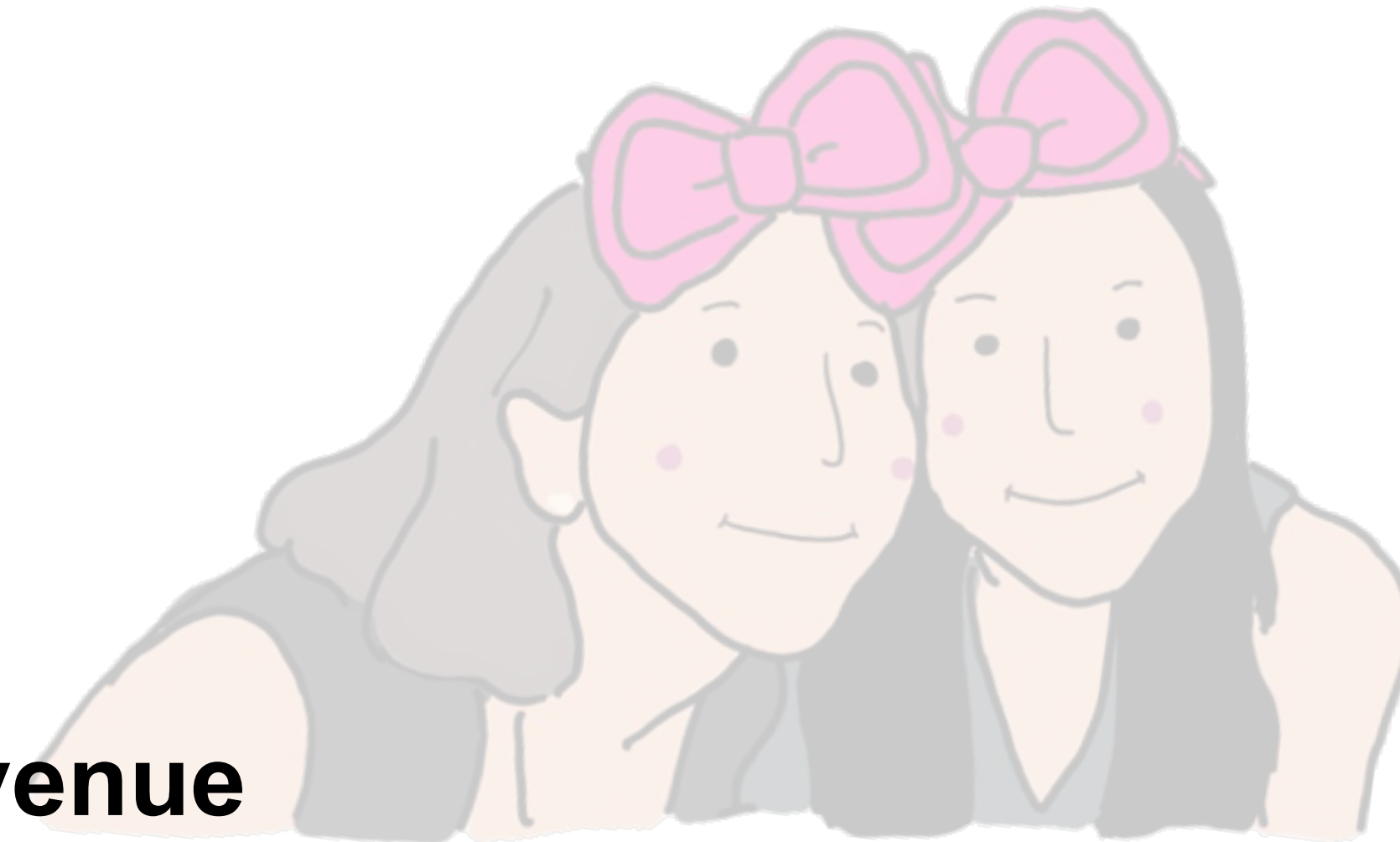
1. Calculating the costs of production

- Fixed cost
- Variable cost
- Total Cost
- Average cost

2. Calculating total revenue

- Total revenue
- Average revenue

3. Objectives of firms



1. Calculating the cost of production

Fixed Cost

+

Variable Cost

=

Total Cost

Meaning

- Cost that do not vary with production volume in the short run

- Cost that do vary with production volume

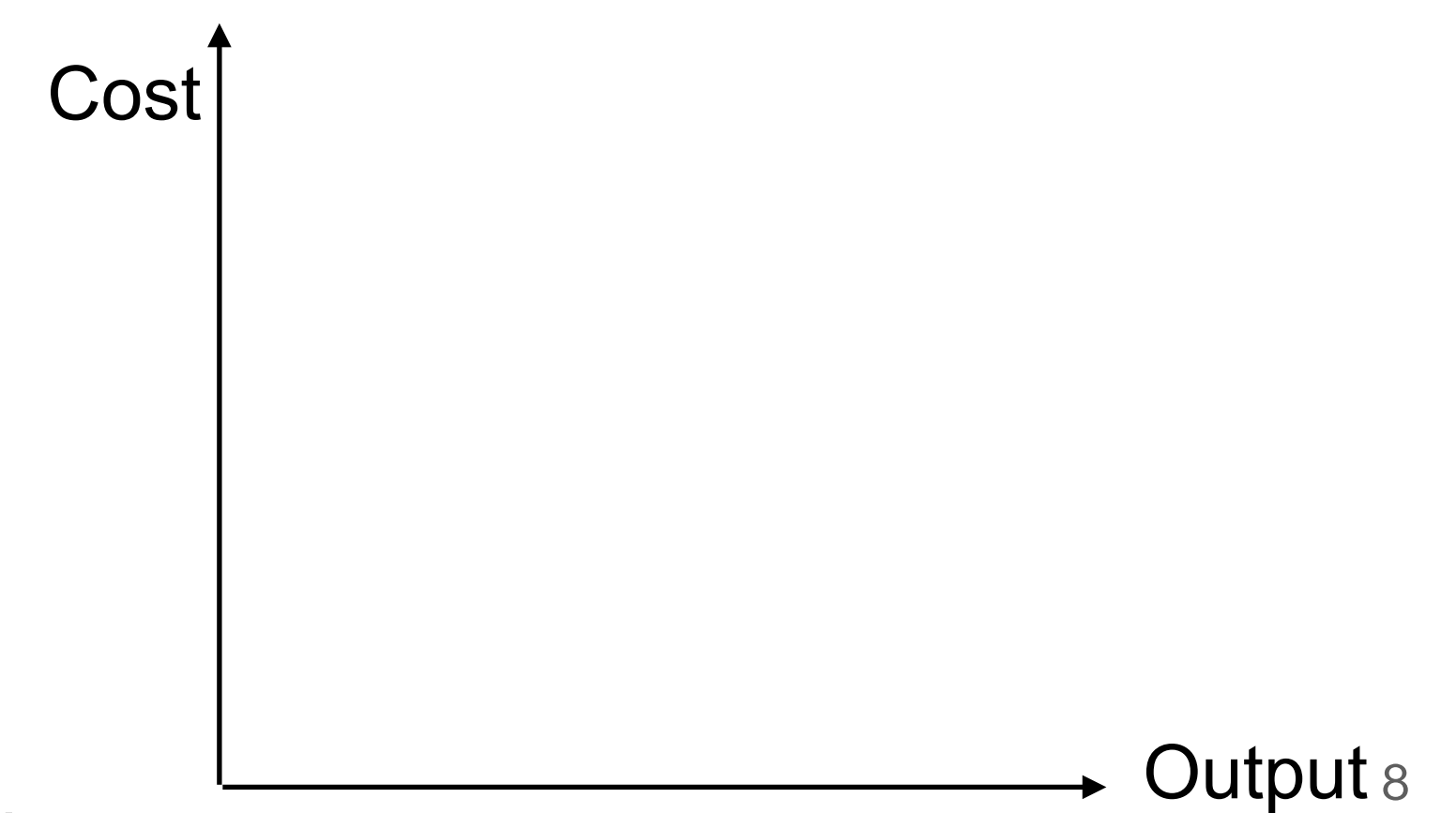
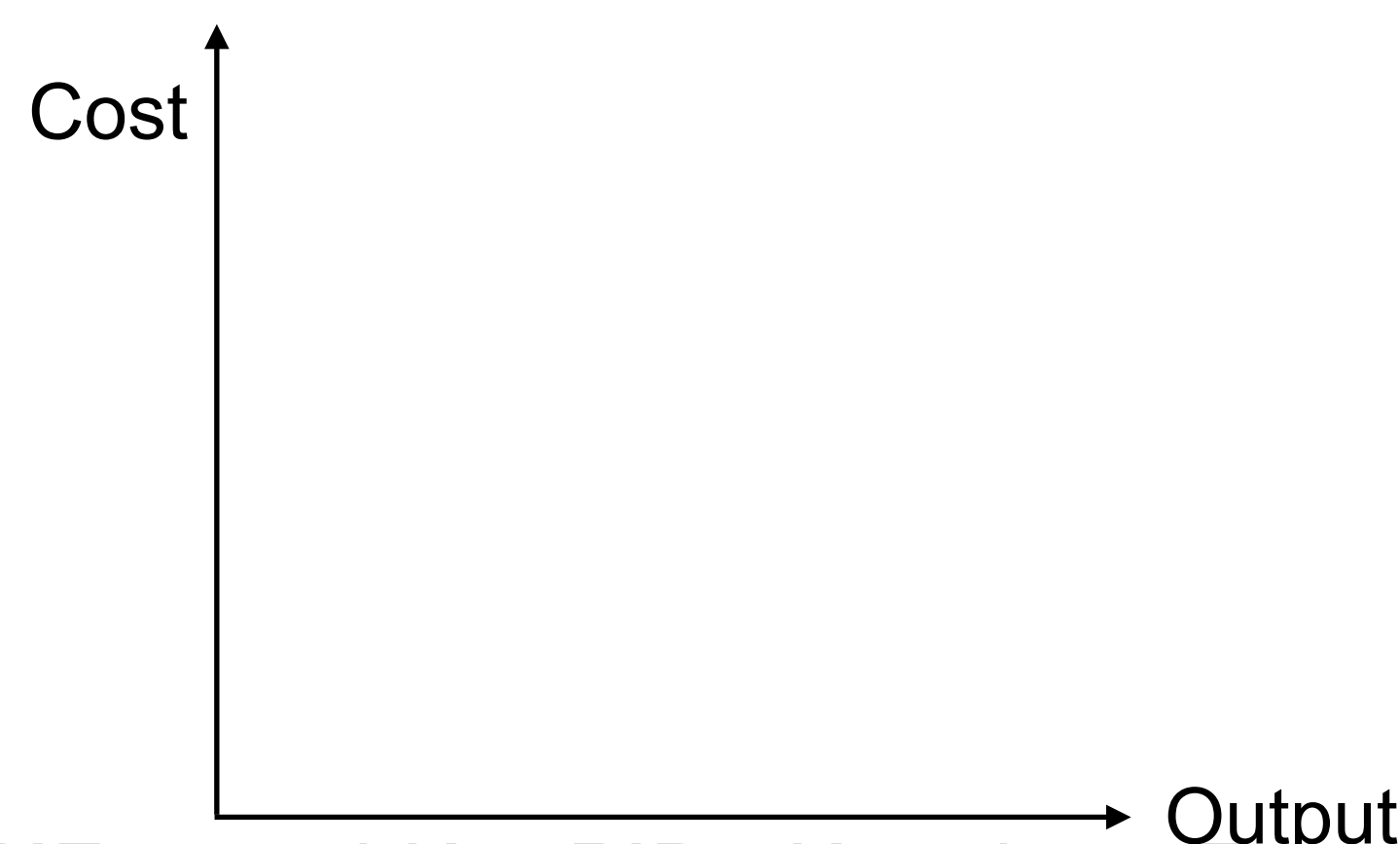
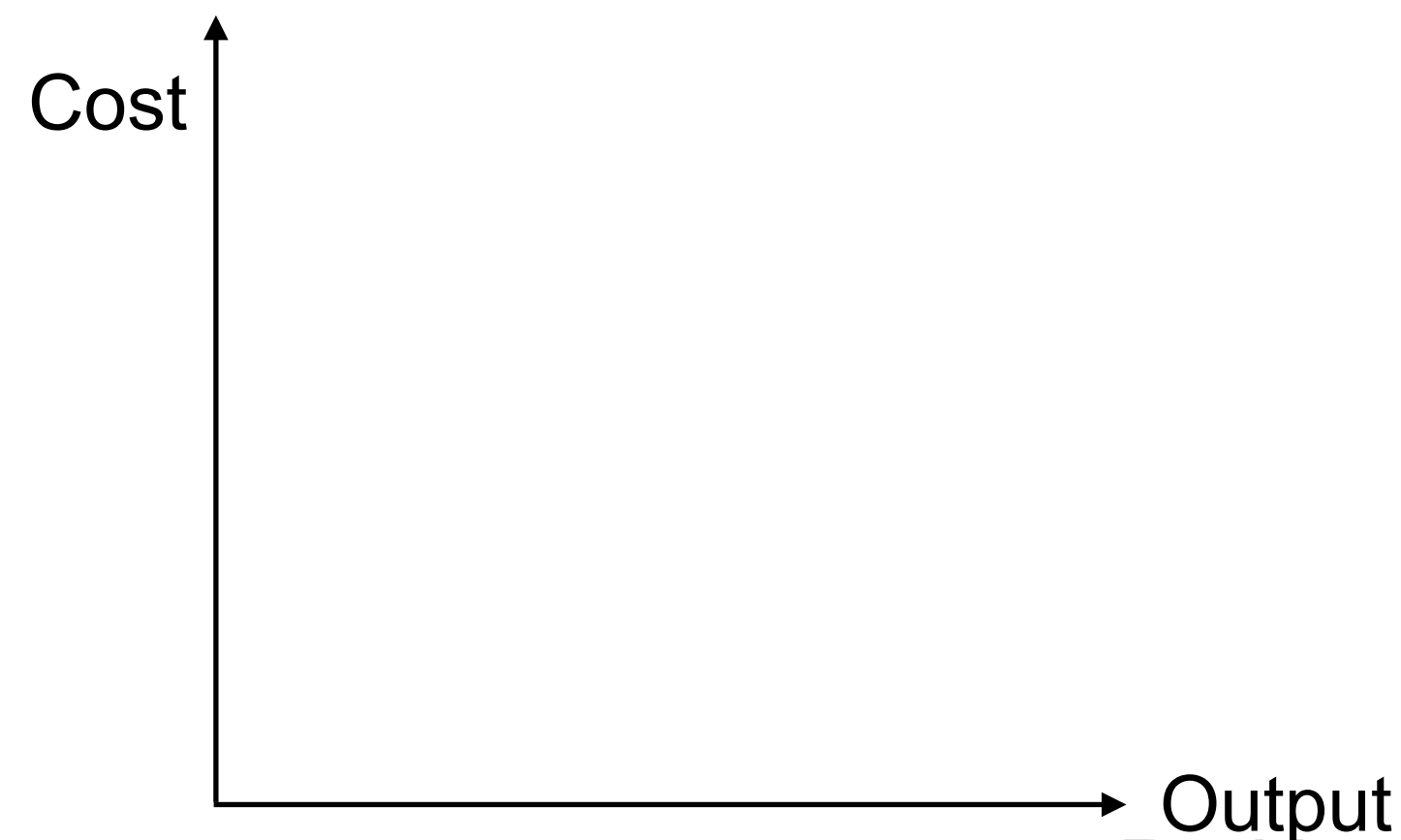
Fixed cost + Variable cost

Example

- Eg. Rent, Water supplies , insurance, interest

- Eg. Raw material, Packaging

Diagram



1. Calculating the cost of production

Average Fixed Cost (AFC)

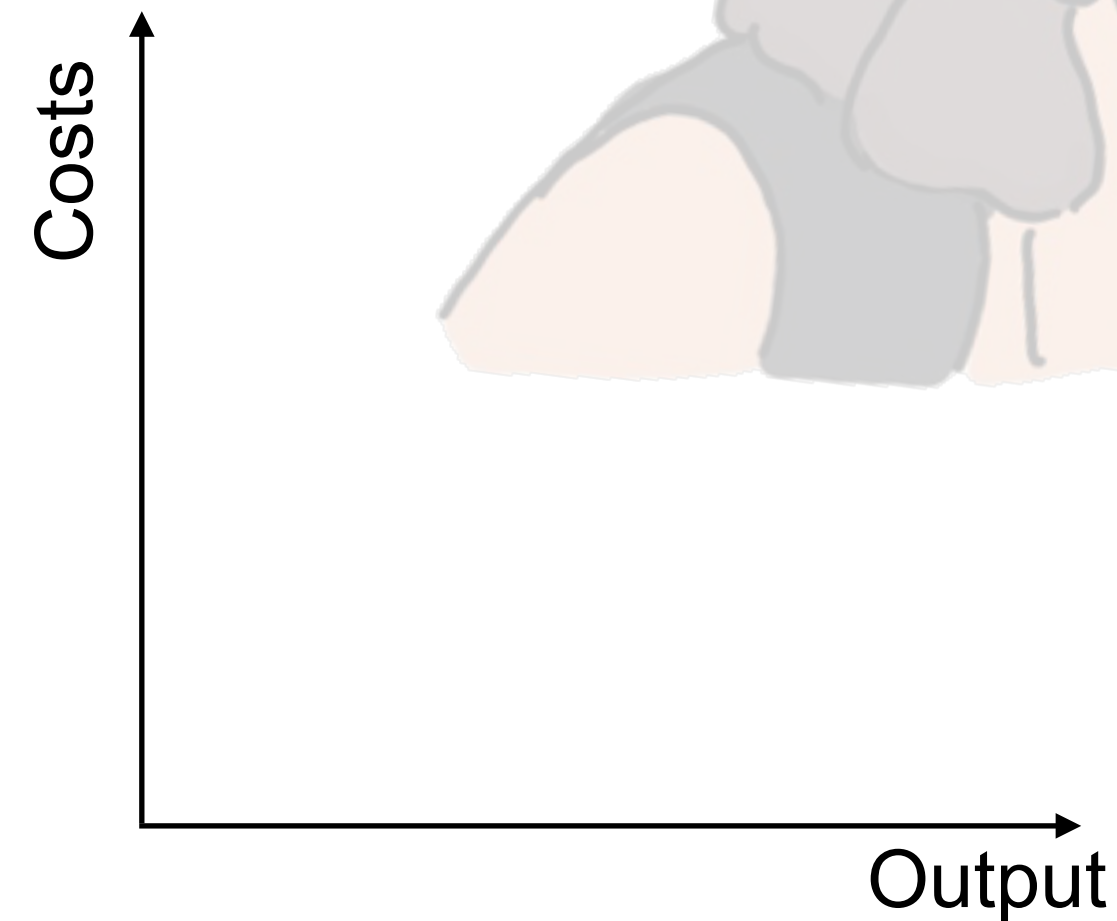
Average Variable Cost (AVC)

Formula

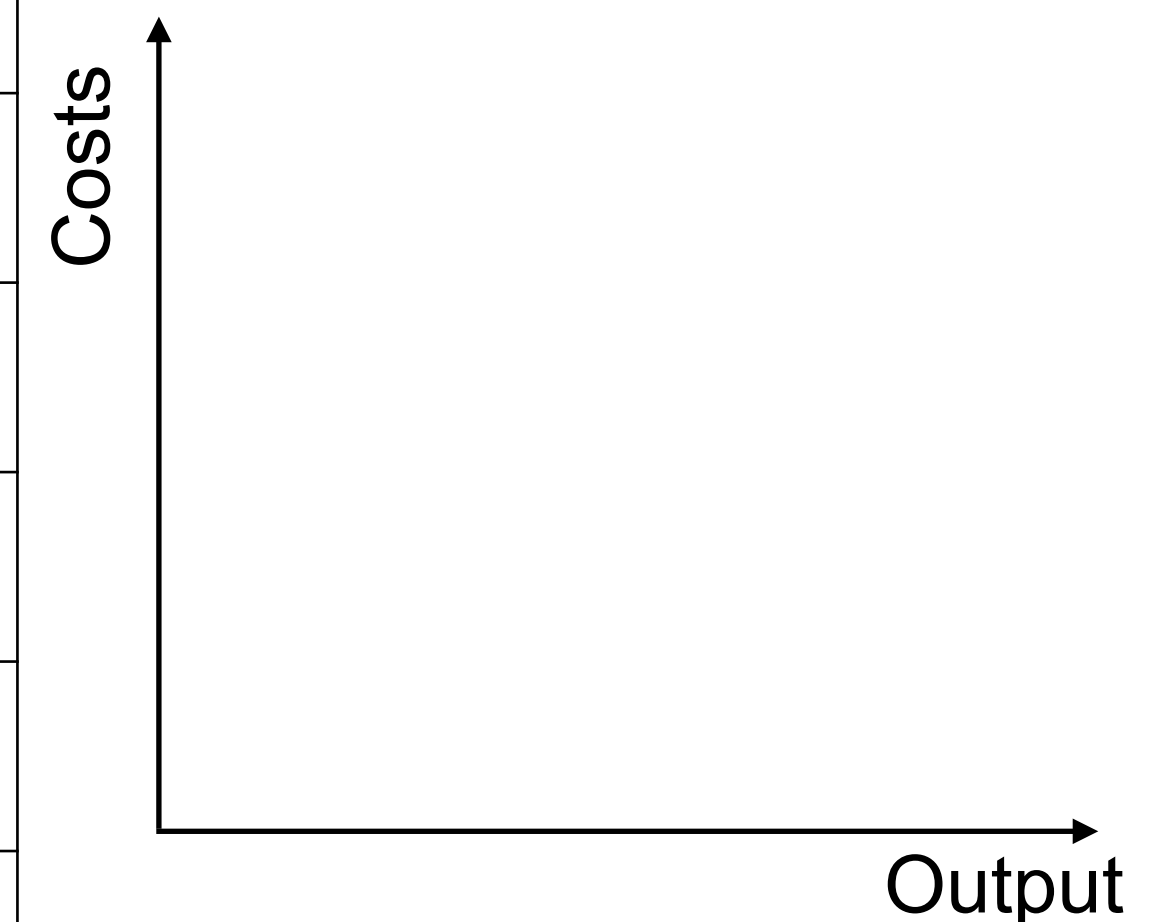
$$= \frac{\text{Total fixed cost}}{\text{Total Output}}$$

$$= \frac{\text{Total variable cost}}{\text{Total Output}}$$

Quantity	Total Fixed Cost (THB)	Average Fixed cost (THB)
1	100	
2	100	
3	100	
4	100	
5	100	



Quantity	Total Variable Cost (THB)	Average variable cost (THB)
1	40	
2	70	
3	90	
4	120	
5	175	



To sum up: Average fixed cost falls as the quantity sold increases.

To sum up:

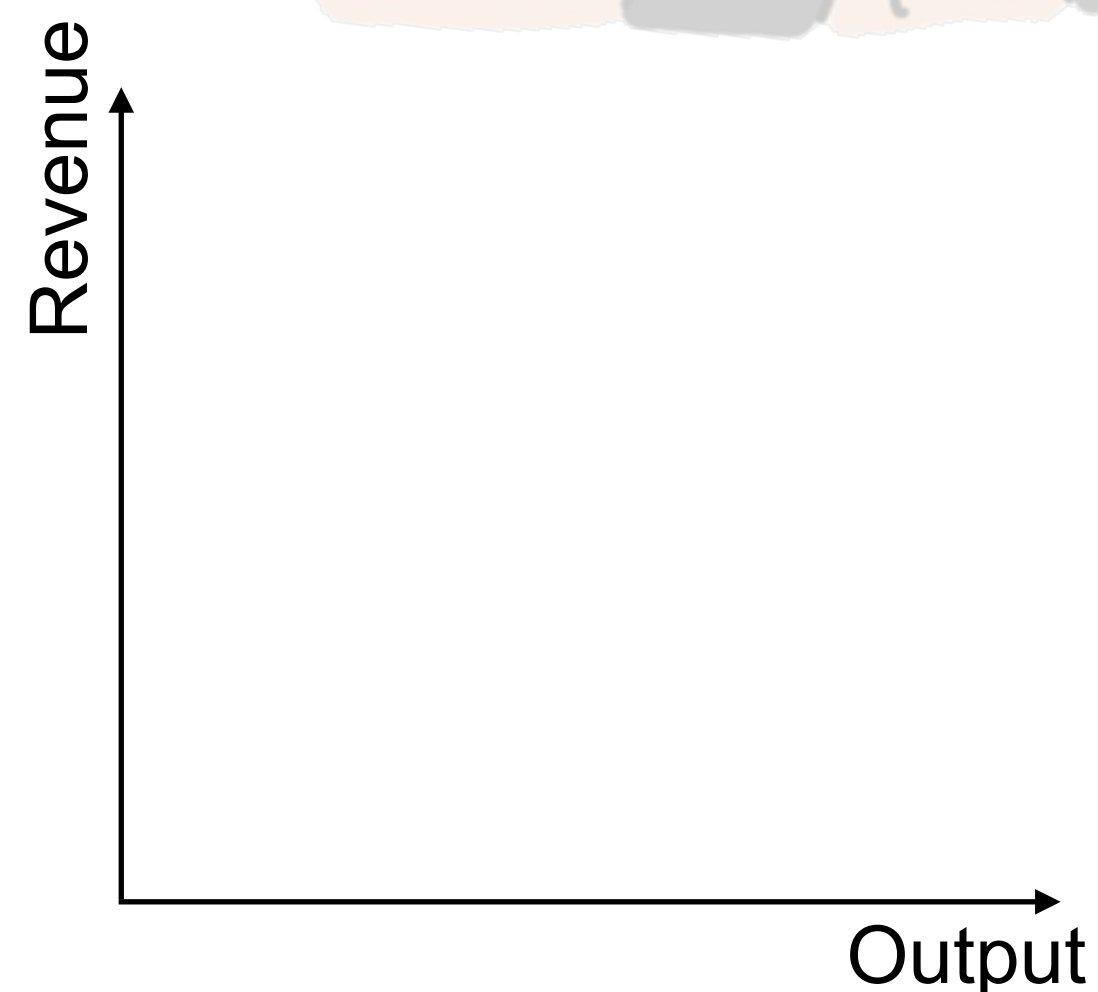
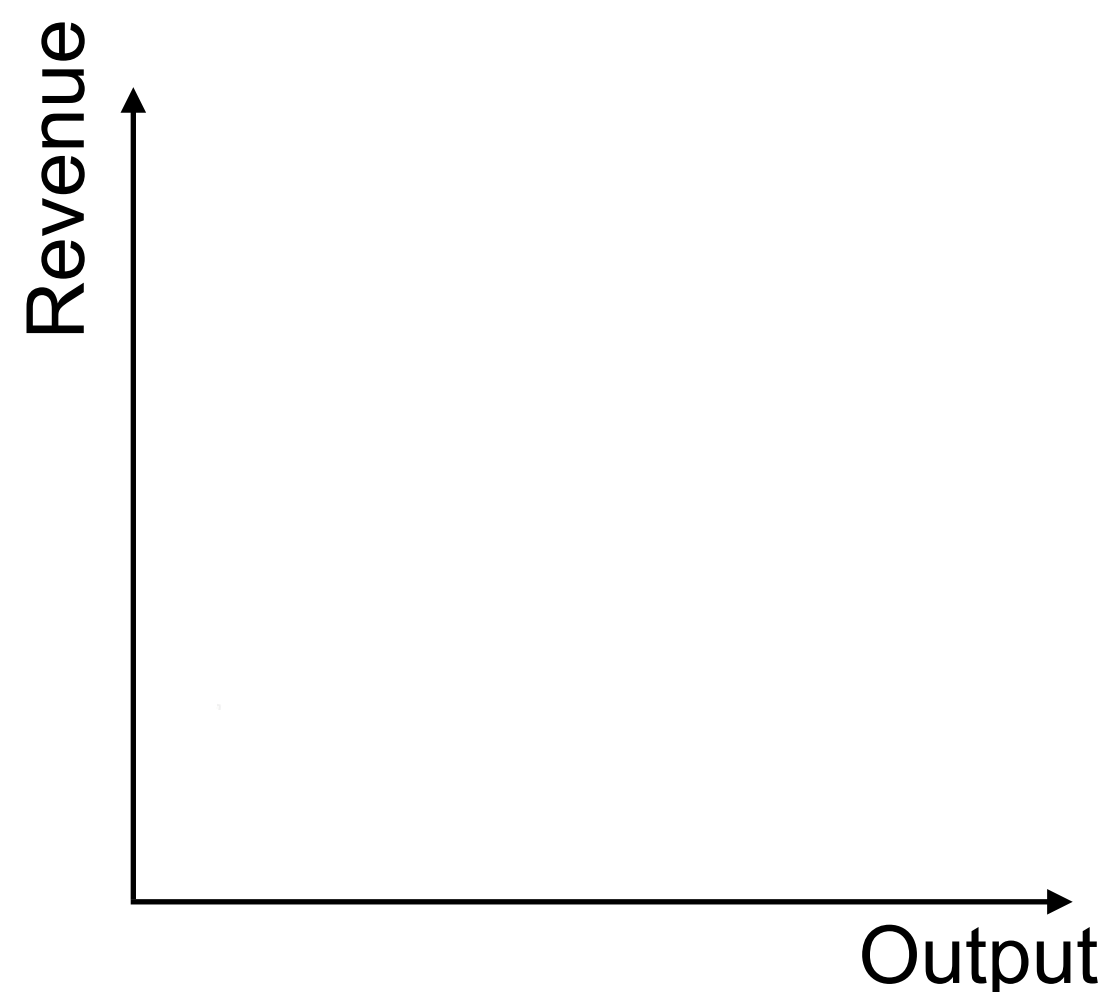
- AVC ↓ : When a firm face economies of scale
- AVC ↑ : When a firm face diseconomies of scale

2. Calculating revenue

- **Total revenue** : The total amount of a company's sales
: Price per unit x Quantity
- **Average revenue** : Total revenue / total quantity sold

Competitive market

- Large number of producers and consumers in the market and each firm's output may have no effect on price.



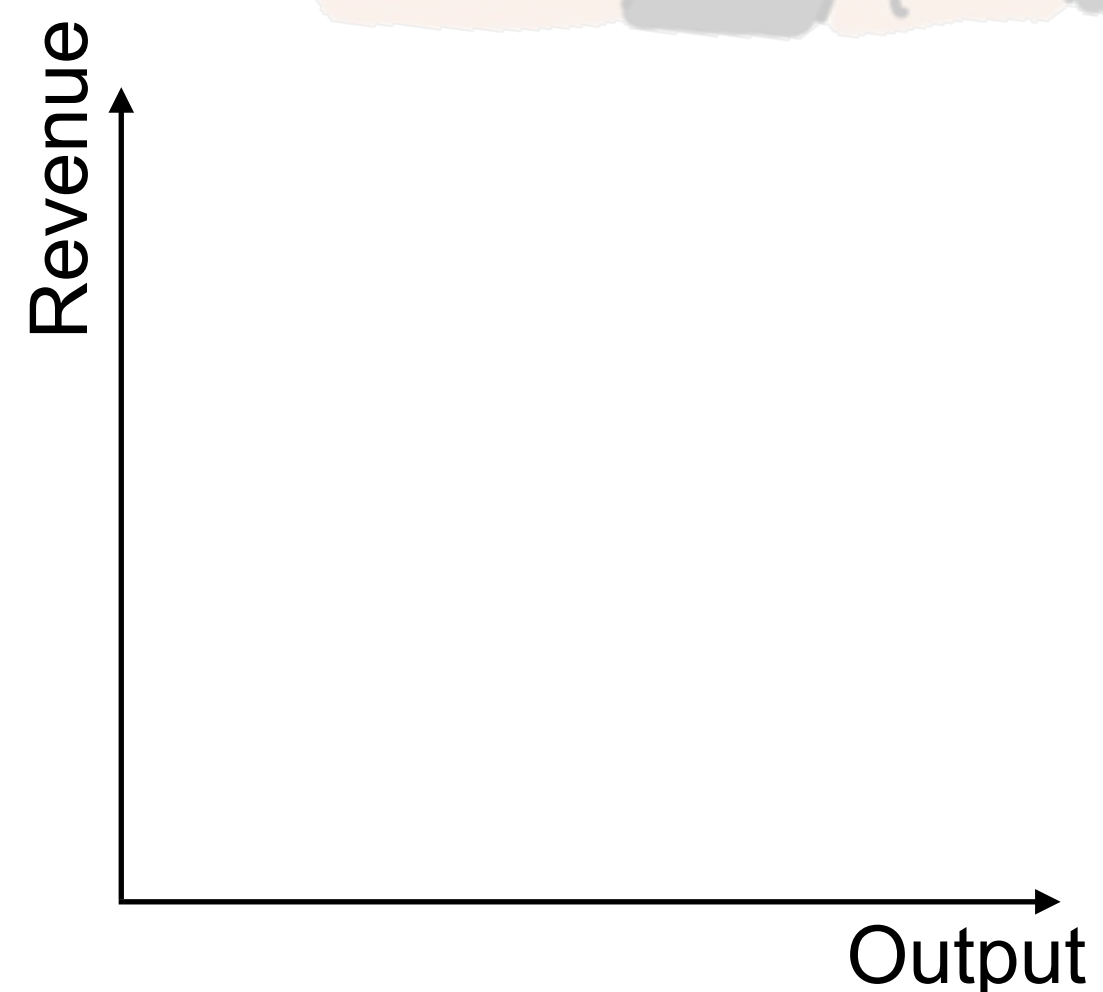
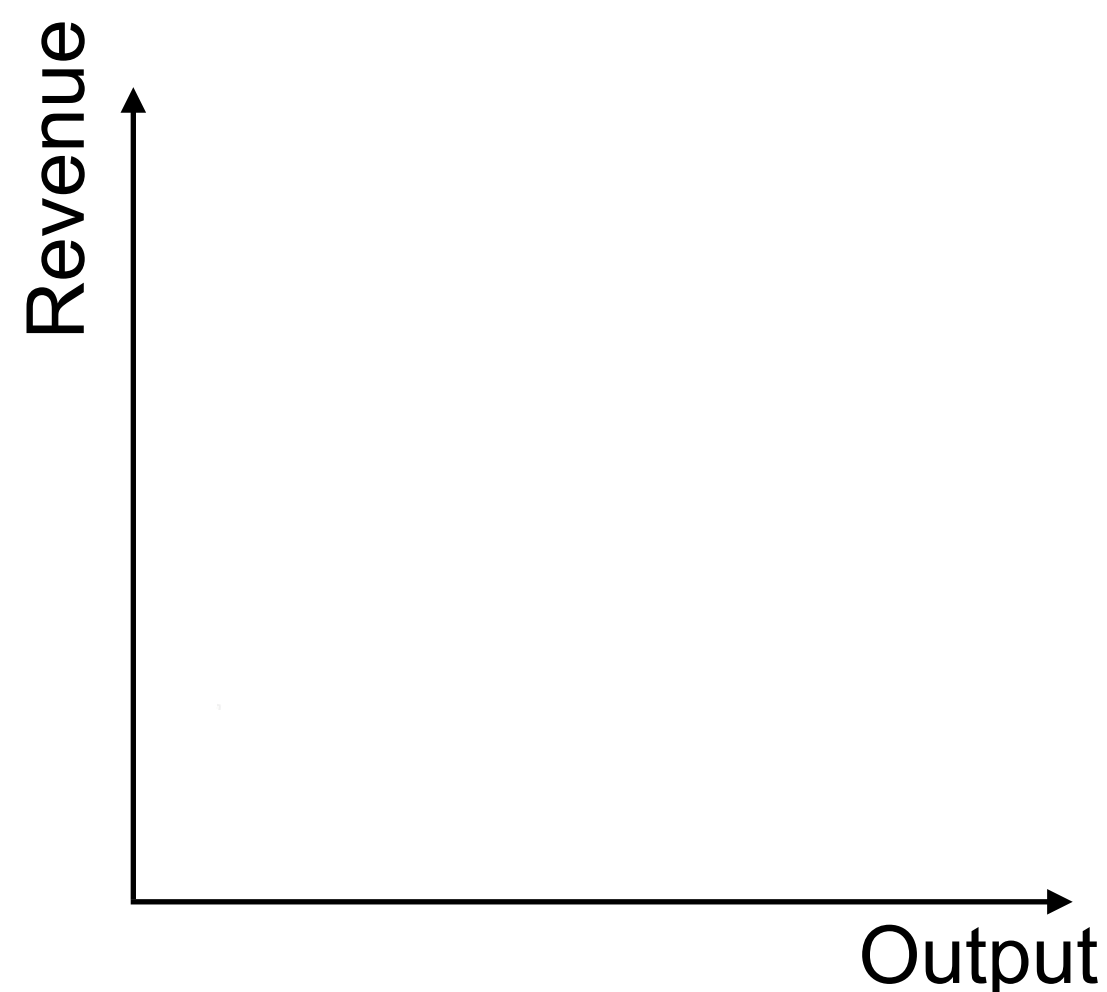
Quantity sold	Price per unit (THB)	Total Revenue	Average revenue
1	10		
2	10		
3	10		
4	10		
5	10		

2. Calculating revenue

- **Total revenue** : The total amount of a company's sales
: Price per unit x Quantity
- **Average revenue** : Total revenue / total quantity sold

Monopoly market

- Only one firm dominates in the market. Firms are price maker.



Quantity sold	Price per unit (THB)	Total Revenue	Average revenue
1	10		
2	9		
3	8		
4	7		
5	6		

3. Objectives of firms

3.1 Profit Maximisation

➔ Profit = Revenue - Total cost

Benefits

➔ Owners receive more profit.

➔ Firms can use profit to reinvest in innovation and technology.

➔ Shareholders possible to receive higher dividend.

➔ Firms can treat workers better eg. improve working conditions / bonus. This may help retain workers and reduce recruitment cost.

How to achieve profit maximisation

1. Reducing cost of production

2. Raise revenue

3. Objectives of firms

3.2 Profit satisficing

: To gain profit just enough to make shareholders happy and firms may offers some profit to satisfy other stakeholders e.g. workers and consumers.

3.3 Social Welfare

: To improve people's well-being and social welfare.



3. Objectives of firms

3.4 Growth

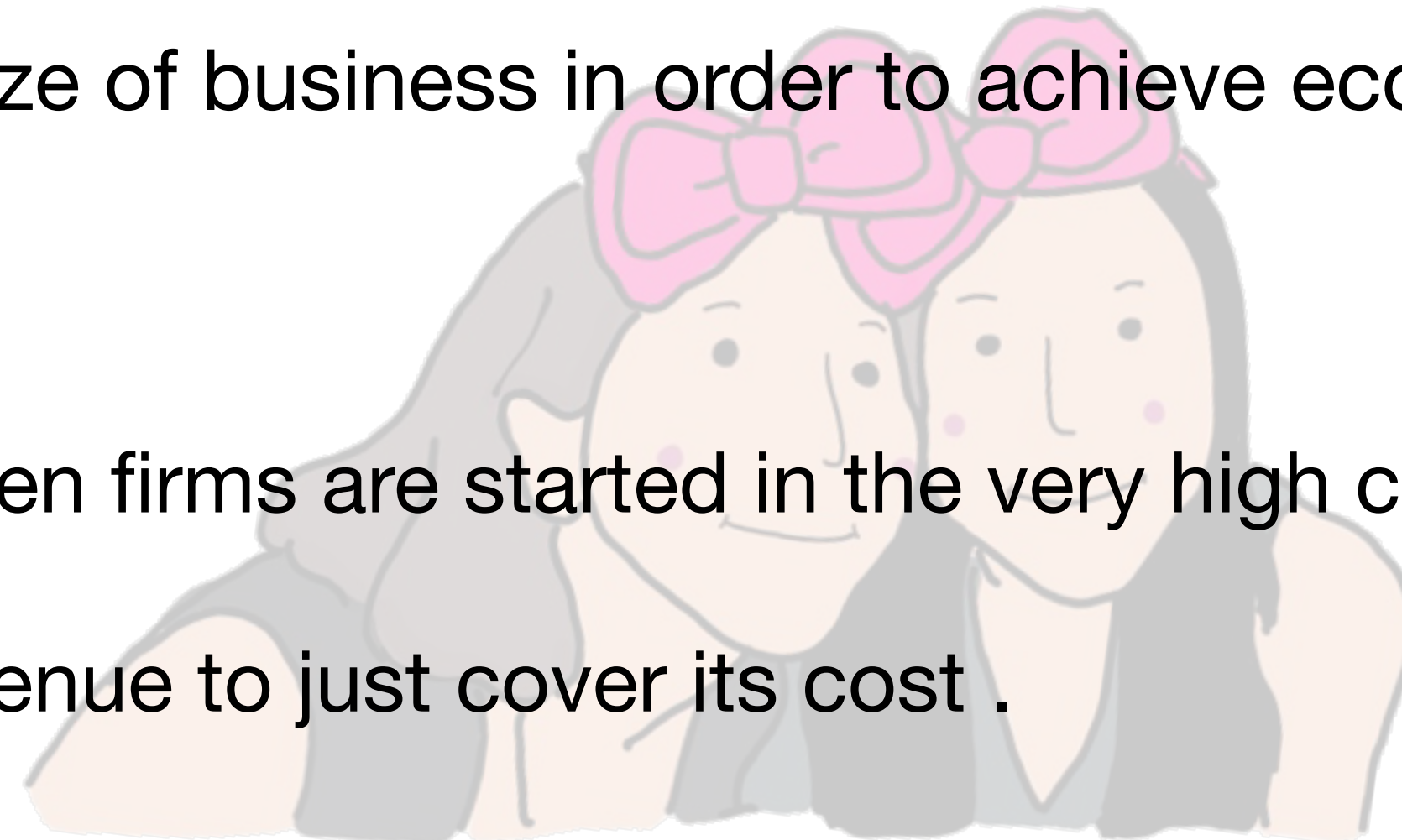
: Firms would like to increase size of business in order to achieve economies of scales.

3.5 Survival

: It is usually initial objective when firms are started in the very high competitive market.

: Firms may want to receive revenue to just cover its cost .

: However, it is short run objective during difficult times eg. Covid-pandemic. They will try to stay in the market in the hope that market conditions will be better.



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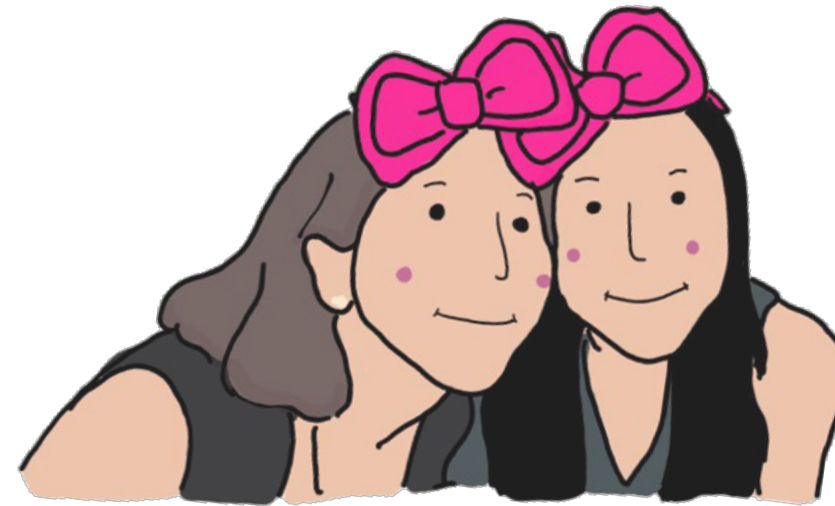
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MICROECONOMICS - Exercise- Firms and Production

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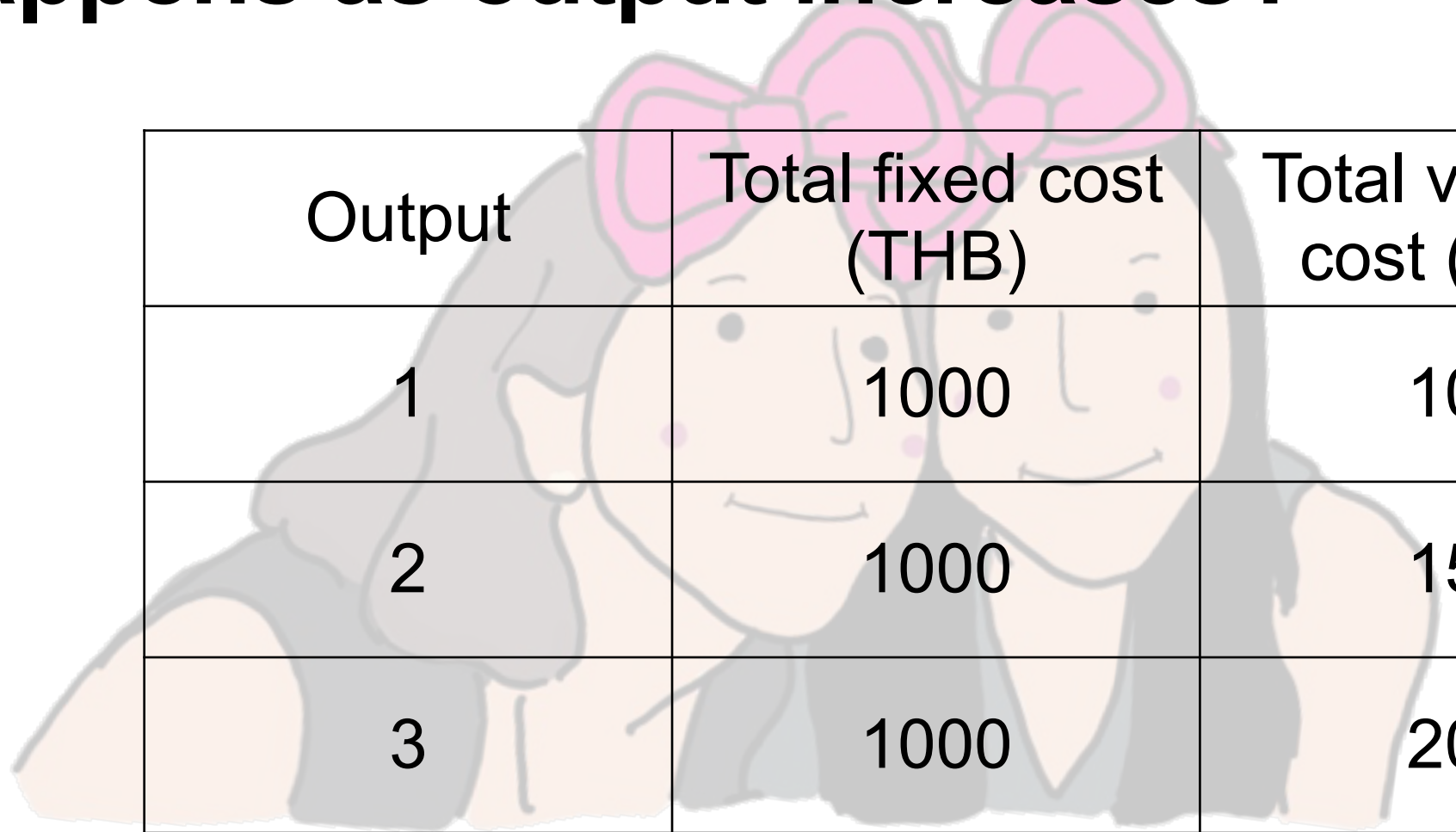
Exercise: MCQ

1. Which statement proves there has been an improvement in productivity for a factory making cars?

- A. 5% more workers results in a 5% increase in cars produced each week.
- B. Output per worker increase from 5 cars to 10 cars per month.
- C. Production increases as more workers are hired.
- D. 5% more time spending results in a 5% increase in cars produced a day

Exercise: MCQ

2. The table represents total fixed cost and total variable costs at different levels of output for a firm. What happens as output increases?



Output	Total fixed cost (THB)	Total variable cost (THB)
1	1000	100
2	1000	150
3	1000	200
4	1000	250

- A. Average fixed cost falls
- B. Average fixed cost rises
- C. Average variable cost remains the same
- D. Average variable cost rises

Exercise: Essay

1. Explain the difference between fixed cost and variable cost with an example [4]

Command Word:

Explain: set out purposes or reasons / provide the relationships between things clear / say causes and consequences , why and /or how and support with relevant evidence

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Definition (1x2) + Example (1x2)



Exercise: Essay

2. Discuss whether consumers and workers always benefits when firms receive higher profit [8]

Command Word:

Discuss: Set out both sides of an argument (For and against)

For

Against

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