Chapter 8 – Producer's Equilibrium

Question 1

What is a Profit?

Ans: Profit refers to the excess of receipts from the sale of goods over the expenditure incurred on producing them.

Question 2

Define Producer's Equilibrium.

Ans: Producer's Equilibrium refers to that price and output combination which brings maximum profit to the producer and profit declines as more is produced.

Question 3

On the basis of the data given below, determine the level of output at which the producer will be in equilibrium. Use the marginal cost-marginal revenue approach.

Output (Units)	**1**	**2**	**3**	**4**	**5**	**6**	**7**
Average Revenue (₹)	7	7	7	7	7	7	7
Total Cost (₹)	8	15	22	28	33	40	48

Solution:

Output (Q) (in units)	**AR (₹)**	**TC (₹)**	**MC (₹)** $MC_n = TC_n - TC_{n-1}$	**MR (₹)** $MR_n = TR_n - TR_{n-1}$
1	7	8	8	7
2	7	15	7	7
3	7	22	7	7
4	7	28	6	7
5	7	33	5	7
6	**7**	**40**	**7**	**7**
7	7	48	8	7

Question 4

What are the 2 methods for determination of Producer's Equilibrium?

Ans: The 2 methods for determination of producer's equilibrium are,

- Total Revenue and Total Cost Approach (TR – TC Approach)
- Marginal Revenue and Marginal Cost Approach (MR – MC Approach)

Question 5

What are the conditions needed for the Producer's Equilibrium?

Ans: The conditions needed for the producer's equilibrium are,

- MC=MR
- MC is greater than MR after the MC = MR output level