

GUIDED READING Activity 5-1

For use with textbook pages 113-120

WHAT IS SUPPLY?

RECALLING THE FACTS

Directions: Use the information in your textbook to answer the questions. Use another sheet of paper if necessary.

1. What does the Law of Supply state? _____

2. Explain how each of the following tools can help businesses make production decisions.
 - a. Supply schedule: _____

 - b. Supply curve: _____

 - c. Market supply curve: _____

3. What does a change in quantity supplied respond to?

4. Why does the supply curve shift to the left? _____
5. Name the seven factors that determine whether supplies increase or decrease.
 - a. _____
 - b. _____
 - c. _____
 - d. _____
 - e. _____
 - f. _____
 - g. _____
6. What is supply elasticity? _____
7. What characterizes an inelastic supply curve? _____

8. What changes does a unit elastic supply curve show?

GUIDED READING Activity 5-2

For use with textbook pages 122–125

THE THEORY OF PRODUCTION

OUTLINING

Directions: Locate the following headings in your textbook. Then use the information under the headings to help you write each answer. Use another sheet of paper if necessary.

I. Law of Variable Proportions

- A. What does the Law of Variable Proportions state? _____
- B. What happens when more than one factor of production is varied? _____

II. The Production Function

A. Introduction

1. What is a production function? _____
2. What are raw materials? _____

B. Total Product

1. What happens to resources if there are too few workers? _____
2. What happens to output if there are too many workers? _____

C. Marginal Product—What is marginal product? _____

III. Three Stages of Production

A. Introduction

1. At what point are changes in marginal product of special interest? _____
2. What are the stages of production based on? _____

B. STAGE I: Increasing Returns

1. What is the criterion for determining how long total output will rise? _____
2. When should companies stop hiring? _____

C. STAGE II: Diminishing Returns

1. What happens to the rate of increase in total production during this stage? _____
2. What is the principle of diminishing returns? _____

D. STAGE III: Negative Returns

1. What happens to marginal product during this stage? _____
2. What happens to total plant output during this stage? _____
3. What effect does this stage have on hiring? _____

GUIDED READING Activity 5-3

For use with textbook pages 127–131

COST, REVENUE, AND PROFIT MAXIMIZATION

FILLING IN THE BLANKS

Directions: Use your textbook to fill in the blanks using the words in the box. Some words may be used more than once. Use another sheet of paper if necessary.

overhead	total costs	marginal costs
variable costs	total revenue	e-commerce
marginal analysis	marginal revenues	fixed costs

Measures of Cost

Cost is divided into several categories. The first is **1** _____—the costs that a business incurs even if the plant is idle and there is zero output. The total of these unchanging costs, or **2** _____, remains the same. On the other hand, expenses that change—such as one associated with labor and raw materials—are **3** _____. The sum of these two costs is **4** _____. Another category of cost is **5** _____the extra costs incurred when a business produces one additional unit of a product.

Applying Cost Principles

Business firms have a different mix of costs. A full-service gas station may have higher **6** _____ than one that sells only gas, because it employs a variety of employees. An entrepreneur engaged in **7** _____—electronic business or exchange conducted over the Internet—is an example of a business with very low **8** _____.

Measures of Revenue

Businesses use two key measures of revenue to find the amount of output that produces the greatest profit. **9** _____ is the number of units sold multiplied by the average price per unit. Even more important are **10** _____, which are the extra revenues associated with the production and sale of one additional unit of output.

Marginal Analysis

Economists use **11** _____, a type of cost-benefit decision making tool that compares the extra benefits to the extra costs of an action. One issue facing a business is that of breaking even, or earning enough revenue to cover **12** _____. Businesses want to know how to generate the maximum profit. They can do so by comparing **13** _____ and **14** _____.