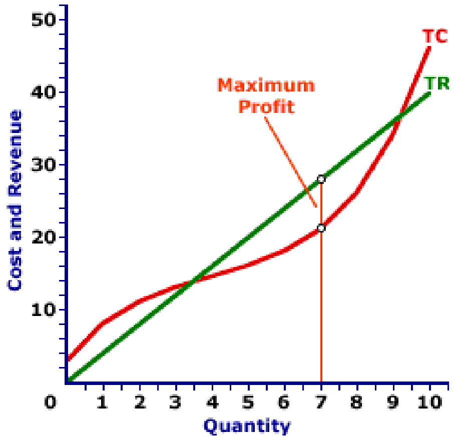
Answer on Question #38880 – Economics - Other

A perfectly competitive firm is assumed to produce the quantity of output that maximizes economic profit- the difference between total revenue and total cost. This production decision can be analyzed directly with economic profit, by identifying the greatest difference between total revenue and total cost, or by the equality between marginal revenue and marginal cost.

Total Revenue and Total Cost: profit maximization can be identified by a comparison of total revenue and total cost. The quantity of output that achieves the greatest difference of total revenue over total cost is profit maximization. In the middle panel, the vertical gap between the total revenue and total cost curves is the greatest at 7 pounds of zucchinis. For smaller or larger output levels, the gap is either less or the total cost curve lies above the total revenue curve.



As we can see, in the point, where the difference (TR — TC) is maximized, total revenue isn't maximized, so the output which maximizes the total revenue of a firm must exceed the output which maximizes the total profits of a firm.