

Self-Mastery Questions- Module 3

Part 1

- T/F Variable and fixed costs both change as you change your production quantity.
- How do you calculate profit?
- T/F Margin is calculated by taking Price minus the Variable Cost and multiplying it by the Quantity.
- T/F Having a low margin is good.

Part 2

- T/F Sensitivity analysis can help you determine what might happen if your assumptions about your business aren't right.
- T/F Investing in capital is always a good idea.

Key:

Part 1

Variable and fixed costs both change as you change your production quantity.

False. Fixed costs stay the same unless you make larger changes in quantity produced which requires a larger space or more equipment.

How do you calculate profit?

*Profit = Margin per unit*Quantity – Fixed Costs*

*Profit = (Price-variable cost)*Quantity – Fixed Costs*

Margin is calculated by taking Price minus the Variable Cost and multiplying it by the Quantity.

True

Having a low margin is good.

False. If your margin is low, you won't be making as much profit. A higher margin insulates you from losing money if things do not go as well (cost increases). If your margin is so low it becomes negative, you're losing money on each unit of product you produce.

Part 2

Sensitivity analysis can help you determine what might happen if your assumptions about your business aren't right.

True Assumptions are just assumptions. You do not really know what will happen until after it happens. Sensitivity analysis allows you to assess what will happen if you have small changes in your assumptions.

Investing in capital is always a good idea.

False. You'll need to consider the cost and how much it will increase your production.