

Hello students, I'm Renuka Sagvekar,

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Today we will be taking up.

The paper economic studies wherein we

will be discussing the unit 2 profit

analysis under which module name break,

even analysis, uses and applications.

The outline for this module

is uses of break even analysis,

application of break,

even analysis after the end of this model.

As a student you will be able to

understand the uses of break even

point and the application of break

even analysis

Since break even analysis is a point

to where the firms cost and its

revenue is equal to each other.

It is also a point where no loss or

no profit is made by the firm.

In other words,

the break even point is a point where

the firm exactly incurs cost equal  
to whatever he gains in the market.

So over here the profit and loss  
situation is totally into equality.

Break even analysis has its own uses.

The first use helps in  
determining optimum level of output.

Now optimum level of output is  
defined by the equality of marginal cost to marginal revenue,  
so the moment firms marginal  
cost equals the marginal revenue.

That point is a point where the firms  
level of output becomes optimum,  
so every firm wishes to have an optimum  
level of output at the point where its  
marginal cost equals marginal revenue.

A break even analysis give  
you the graphical representation,  
so it helps in determining  
optimum level of output.

Secondly helps to determine minimum cost

for a given level of output  
It graphically displays

all the cost which the firms incurred.

It also helps the firm to understand

which is the minimum cost.

He should structure his production with.

So it helps to determine minimum cost

for a given level of firms output.

So there are various levels of

Cost.

The firm only needs to graphically

represent them on the break even.

Analysis and choose the cost which will

be at the minimum level possible for

the firm to go ahead with this production.

It helps in decision making on

which products to be produced.

Now since I have already mentioned that

break even analysis is a point which

shows the equality between cost and revenue.

So the firm will only produce a

level of output where the cost

is always lower than revenue.

So the firm will produce the products which

has more revenue than the cost incurred.

So it helps in a way for a firm.

Looking at this break,

even analysis to make important

decisions regarding their products.

If,

for instance,

if your product shows that the cost

involved in its production is higher

than the revenue estimated in the market,

than the firm will not go ahead with

the production simply because the

cost is higher and the revenue gain

from that product is low.

It will only be a last situation for

a firm so break even analysis plays

very important role for the firm

which the firm can easily come over

with the help of break even analysis.

It evaluates the percent of financial

yield from a project since break.

Even analysis gives an overview of the

Firms cost and profit situation.

It helps the firms to know what

can be an expected rate of return

from a certain production.

Output can be used in finding selling costs,

since the firm knows that there

is profit and loss,

it can easily estimate or roughly

figure out the selling cost

or the price for its product.

He will able to understand at what

price or what price should be charged

for a product so that he can earn a

certain amount of profit in the market,

which can be represented by

break even analysis.

Then we talk about application

of break even analysis.

The first application of break

even analysis is safety margin.

Safety margin is a concept which

represents the gap between

budgeted sales to the actual sales.

Now budgeted sales mean the

Same like break even sales.

Now lets look at your break,

even figure where the profit

is equal to loss,

you know that at that point of time you

can produce a medium level of output.

Now that output minus the output,

which you will earn over you will

gain after crossing that break even

point is what is your safety margin.

The safety margin is nothing but the

actual sales minus the break even sales.

So the gap between this actual

sales and the break.

Even sales is what is denoted

by safety margin.

Another application is volume

needed to attend target profit.

Now what is the level of output?

Which of firm needs to attend to

have a desirable amount of profit

is also given by the application

of break even analysis by looking

at his break even graph the firm is

easily able to have a rough idea

where he needs to produce and at

what level of attainment he will

achieve that amount of profit whether

to expand production capacity or not.

Again,

this decision is given by

representation of break even.

Analysis Whether the expansion of

output will lead the firm to an

anticipated increase in profit or

whether to our last scenario will be  
able to understand by looking at its break.

Even graph whether to make or whether  
to buy or whether to add new product  
called up production of any predator

is easily represented by a  
break even analysis by giving the  
firm its cost and profit ratio.

For further information on the  
applications and uses of break even analysis,  
you can refer to references listed here.

Thank you.