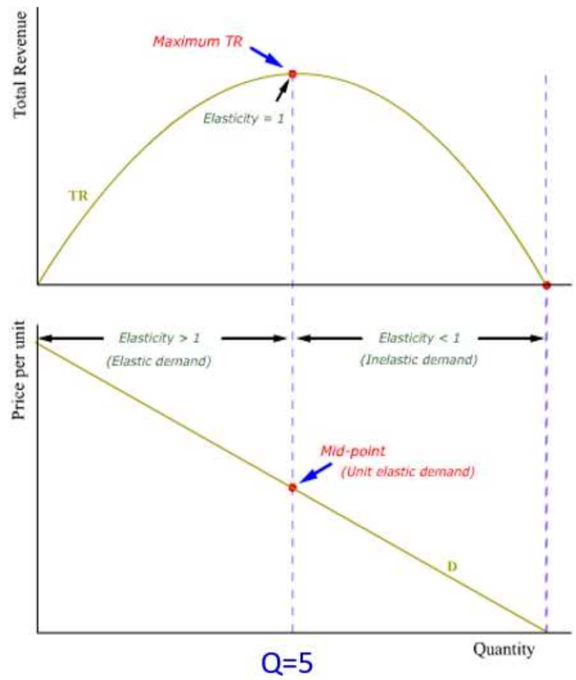
# Quadratic function: revenue function/break even analysis




$$\left|\frac{\%\Delta Q}{\%\Delta P}\right| : \begin{array}{lcc} >1 & ; & \textit{elastic} \\ =1 & ; & \textit{unit elastic} \\ <1 & ; & \textit{inelastic} \end{array}$$

*Revenue maximizing output:*
**unit** elasticity

Profit-maximizing output:
under region with **elastic** demand

48

Exrcise 2B. Consider a function that relates tax revenues R, in billions of dollars, to the average tax rate t such that $R = 350t - 500t^2$.

(a) What tax rate(s) is consistent with raising tax revenues equal to $60 billion?

(b) What tax rate(s) is consistent with raising tax revenues equal to $61.25 billion?

(c) What tax rate is consistent with the maximum tax revenue?

(a) $350t - 500t^2$

$= 60$

$= 500t^2 - 350t + 60$

$= 50t^2 - 35t + 6$

$= (5t-2)(10t-3)$

$t = \frac{2}{5}, \frac{3}{10}$

(b) $350 - 500t^2$

$= 61.25$

$= 500t^2 - 350t + 61.25$

$$\frac{350 \pm \sqrt{(350)^2 - 4(500)(61.25)}}{1000}$$

$t = \frac{7}{20}$

(c) Max R(t):

$R = 350t - 500t^2$

$= 350 - 1000t$

$t = \frac{350}{1000}$

$= 0.35$ #