Average Revenue Formula

Average revenue is referred to as the revenue that is earned per unit of output. It can also be said that it is the revenue that is obtained by the seller on selling each unit of the commodity.

Average revenue of a business is obtained by dividing the total revenue with the total output.

Average revenue is the same as price as when a seller is selling two units of the same product at the same price, but if the two products are sold at two different prices, then the average revenue will be different.

Average revenue helps in estimating the profit of a business as the profit is calculated by subtracting average revenue with average cost.

Market structure determines the relationship between average revenue and quantity of goods produced. In a perfectly competitive firm, average revenue is equal to the price and marginal revenue.

Whereas in monopolistic or oligopolistic firms, the average revenue is always higher than the marginal revenue.

The mathematical formula for calculating average revenue is

$AR = TR / Q$

Where

AR = Average Revenue

TR = Total revenue

Q = Output