Price Calculation: Breakeven Pricing

Often a firm will calculate the break-even point for a price. That is, if we set the price at $X, then how many units will we need to sell to cover costs (that is, our break-even point).

Work through the following two examples to gain a better understanding of this approach.

Using break-even analysis:

1. How many units need to be sold to break-even if the product is sold for $30?
2. How many units need to need to be sold to break-even if the product is sold for $15?

No. of Units	Allocated Fixed Costs	Variable Cost/Unit	Total Production Cost	Average Unit Cost	Unit Price	Total Sales Revenue	Gross Profit
500	$10,000	$10					
1,000	$10,000	$10					
1,500	$10,000	$10					
2.000	$10,000	$10					
2,500	$10,000	$10					

Student Discussion Questions

1. Start by completing the above table.
2. How would the firm use this break-even information?
3. What do you think you would set first: the sales target or the price? Why?