

Fixed Costs (Solution)

Using only the words from the table below, fill in the blank spaces with the appropriate words, in order to correctly complete the text below. Not all of the words are used!

Fixed costs are sometimes called overheads or indirect costs. They are costs that are not affected by the amount of trade carried out, or by the output produced. This means that fixed costs must be paid even if a firm isn't producing anything. Examples of fixed costs include: rent, mortgage repayments, and salaries. It is important to remember that fixed costs do change, but not in direct relation to changes in production. So, for example, rent for premises may go up each year, even if output stays the same.

wages	costs	indirect	total	fixed
variable	paid	trade	salaries	output
rent	do	don't	overheads	

An interactive version of this activity is available at https://www.businessed.co.uk/activities/word_bank/fixed_costs/index.html

Now complete the table below by stating three different examples of fixed costs, and, for each one, explain why you think it is a fixed cost.

Example Fixed Cost	Explanation
Utilities	A business will use gas and electricity, e.g. to provide heating for staff, whether they sell 1000 products or none.
Advertising	Businesses will decide how much to spend on advertising before they know how much is going to be sold.
Loan Repayment	Loans have to be paid back, so payments will be made each month, irrespective of how much a business has produced.