Here’s a Gosh Dern PPT

…to help you understand that explicit and implicit costs can be broken down into these categories:

Total Cost = TC

Fixed Cost = FC

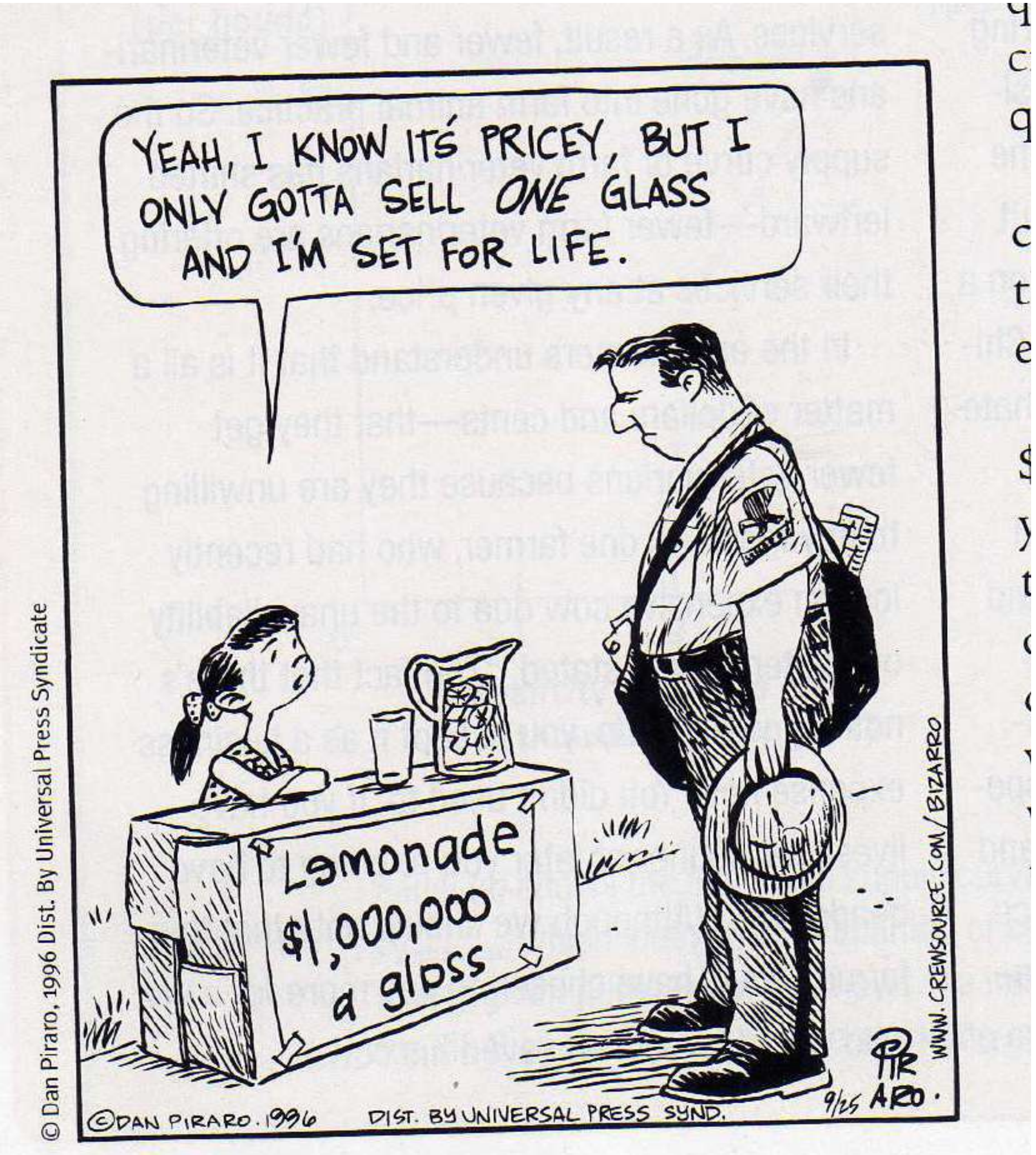
Variable Cost = VC

Marginal Cost = MC

Average Fixed Cost = AFC

Average Variable Cost = AVC

Average Total Cost = ATC



The Various Measures of Cost: D.B's Coffee Shop

Output Quantity	TC Total Cost	FC Fixed Cost	VC Variable Cost	AFC $\frac{FC}{Q}$	AVC $\frac{VC}{Q}$	ATC $\frac{TC}{Q}$	MC $\frac{\text{Change in TC}}{\text{Change in Q}}$
0	$ 3.00	$3.00	$ 0.00	—	—	—	
							$0.30
1	3.30	3.00	0.30	$3.00	$0.30	$3.30	
							0.50
2	3.80	3.00	0.80	1.50	0.40	1.90	
							0.70
3	4.50	3.00	1.50	1.00	0.50	1.50	
							0.90
4	5.40	3.00	2.40	0.75	0.60	1.35	
							1.10
5	6.50	3.00	3.50	0.60	0.70	1.30	
							1.30

Costs you put on a graph:

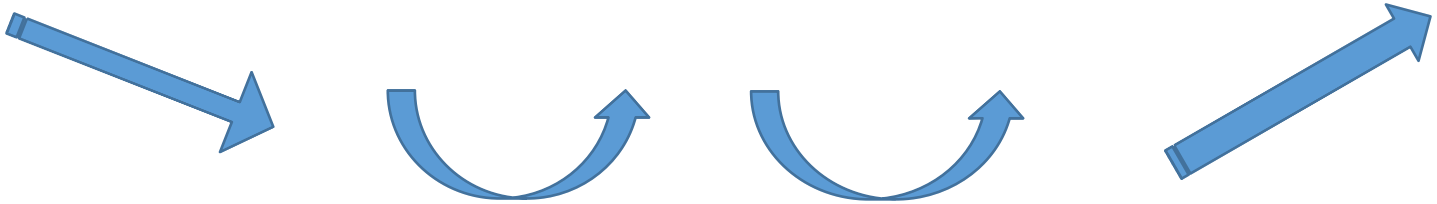
- The Big Four Cost Curves

- AFC,   AVC,   ATC,   MC.

Costs you put on a graph:

- The Big Four Cost Curves

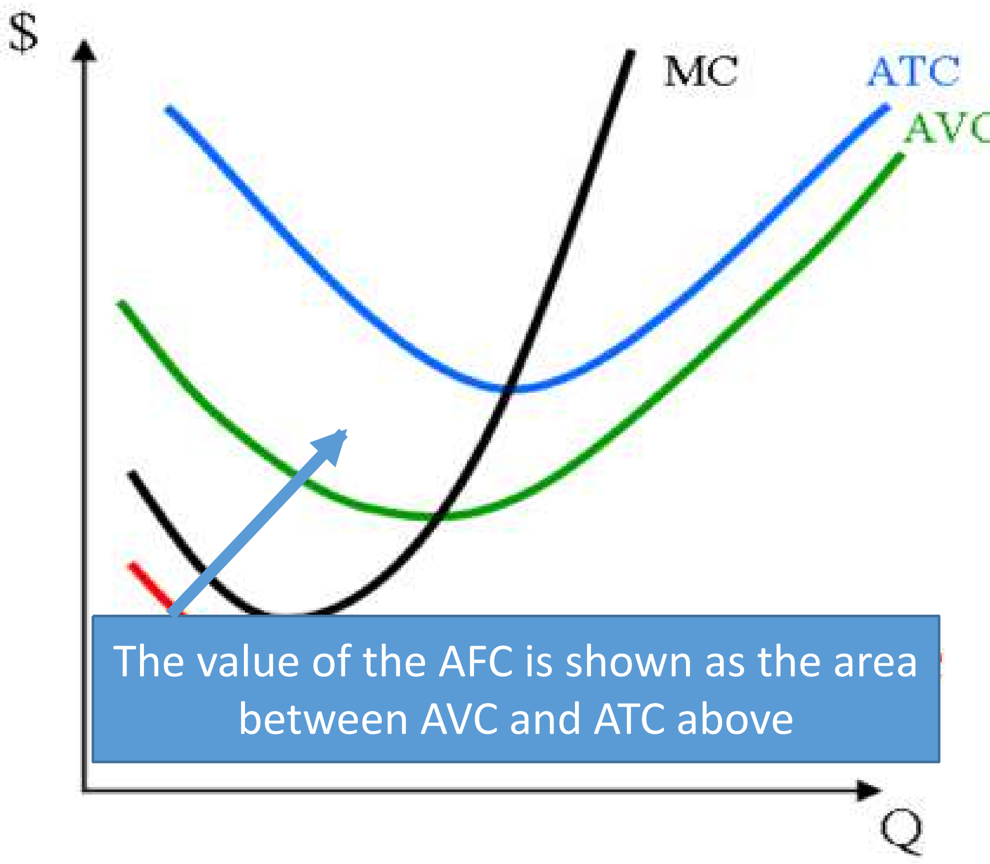
- AFC AVC ATC MC



Here's another example:

Q	TC	ATC	AFC	AVC
0	$100	-	-	-
1	170	$170	$100	$70
2	220	110	50	60
3	260	86.67	33.33	53.33
4	310	77.50	25	52.50
5	380	76	20	56.00
6	480	80	16.67	63.33
7	620	88.57	14.29	74.29

MC
70
50
40
50
70
100
140



Comparing Types of Profit

Accounting Profit includes:

Explicit Cost = Actually paid out. This is called "accounting cost"

Accountants tabulate the following:

TR – TC (explicit only) = Accounting Profit

Economic Profit includes:

Implicit Cost = Opportunity Cost

Economists tabulate the following:

TR – TC (including explicit and implicit)= Economic Profit

- Economic profit can be calculated as accounting profit minus which of the following?
- Fixed costs
- Implicit costs
- Marginal costs
- Explicit costs
- Total costs

- Instead of being employed at a printing company at a salary of \$25,000 per year, Sally starts her own printing firm. Rather than renting a building that she owns to someone else for \$10,000 per year, she uses it as the location for her company. Her costs for workers, materials, advertising, and energy during her first year are \$125,000. If the total revenue from her printing company is \$155,000, her total economic profit is…?

BTW… Thanks for Coming.

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