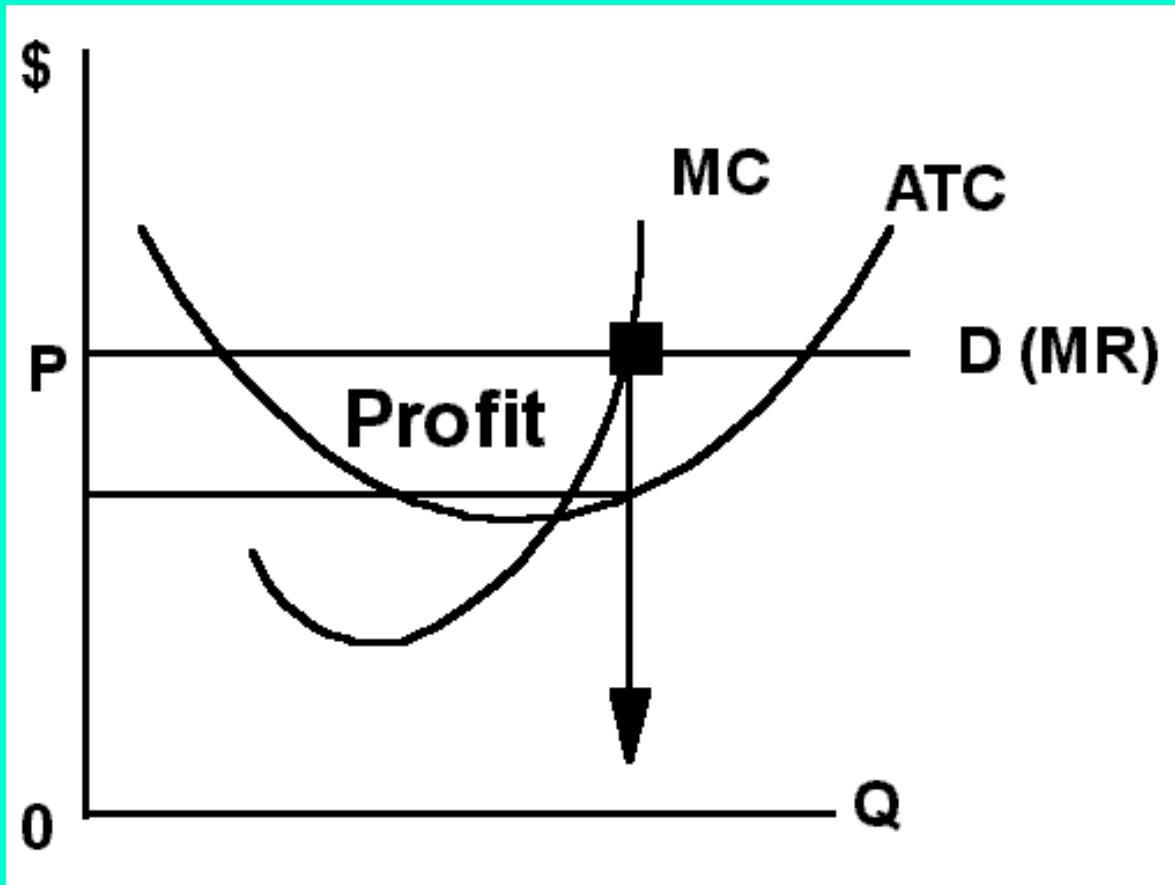


Types of Profit; $MR=MC$



John Scalise

Mr. Gill 2B

1/25/11

Accounting Profits

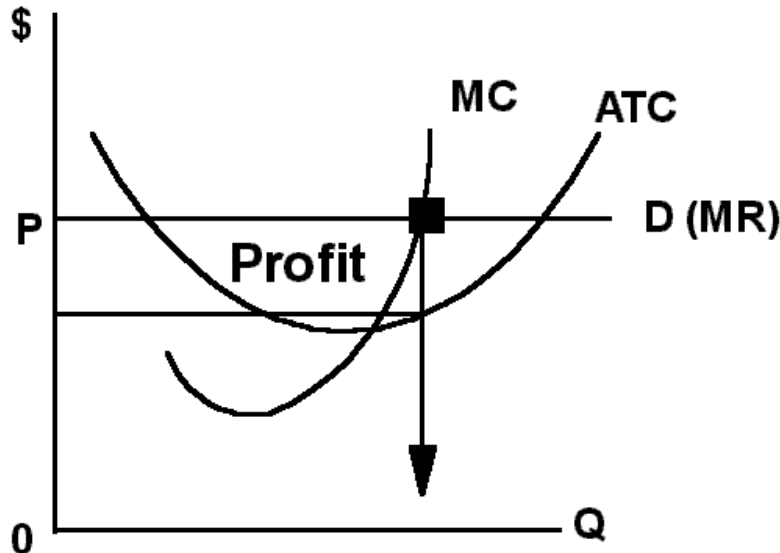
- Accounting Profits is found when explicit costs are subtracted from the total revenue.
- Explicit costs are “monetary” items. For example, wages, rent and taxes.
- $\text{Accounting Profits} = \text{Total Revenue} - \text{Explicit Costs}$

Economic Profits

- Economic Profits is determined by subtracting total costs from total revenue.
- Total costs- are made up of explicit and implicit costs.
- Implicit costs are made up of opportunity costs.
- $\text{Economic Profits} = \text{Total Revenue} - (\text{explicit} + \text{implicit costs})$

Profit Maximization

- The Profit Maximization point normally occurs at the point where the MR cost curve intersect the MC cost curve. (MR=MC)



Question 1

- **Which of the following best explains a marginal cost:**
- A) the fixed cost of producing one more good
- B) the variable cost of producing one more good
- C) the average variable cost of producing one more good
- D) the average fixed cost of producing one more good
- E) the average total cost of producing one more good

Answer 1

- The answer is B: *the variable cost of producing one more good.*

Question 2/3

2) The marginal cost of producing the fourth unit of output is

- (a) \$ 4
- (b) \$11
- (c) \$19
- (d) \$32
- (e) impossible to determine from the information given

3) The profit-maximizing level of output for this firm is

- (a) 2
- (b) 3
- (c) 4
- (d) 5
- (e) impossible to determine from the information given

Output	Total Cost
0	\$13
1	20
2	25
3	28
4	32
5	43
6	60

Answer 2/3

- The answer to number 2 is A: \$ 4.
- The answer to number 3 is E: *impossible to determine from the information give.*

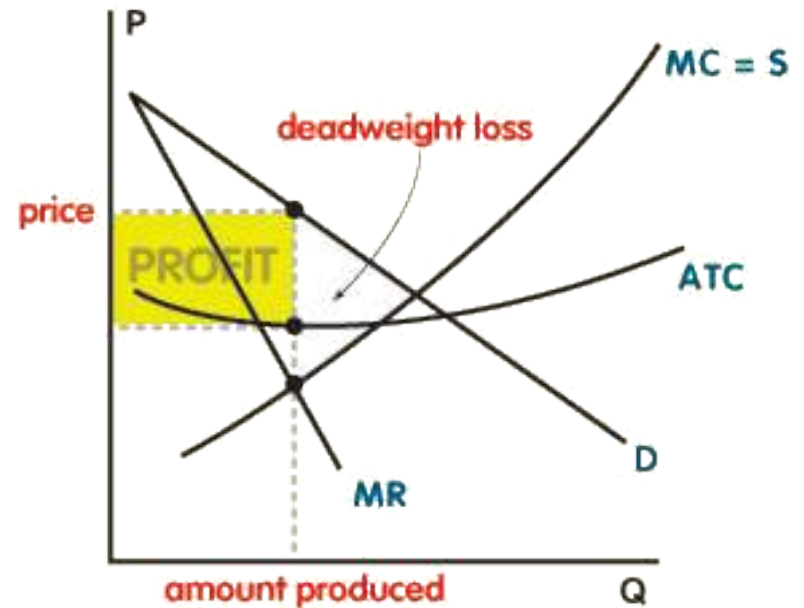
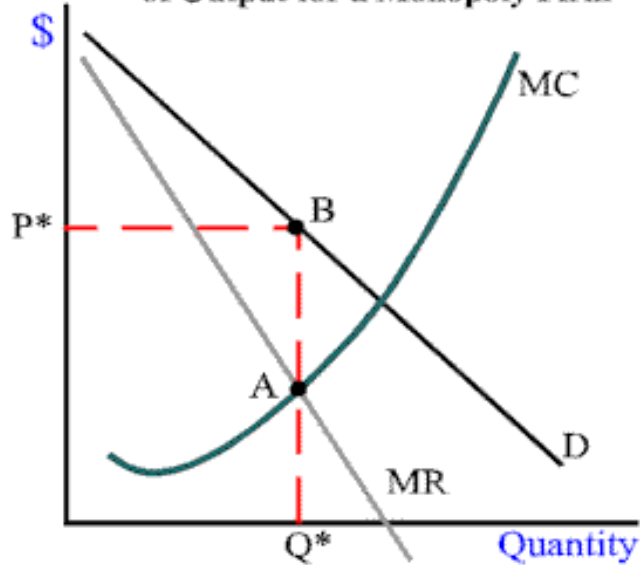
Real World Example

- http://online.wsj.com/article/SB10001424052748703555804576101663946202304.html?mod=WSJ_business_MoreArticles
- http://online.wsj.com/article/SB10001424052748703555804576101261522182384.html?mod=WSJ_earnings_LEFTTopHeadlines

Relate to other units

- This graph shows the profit max point on a monopoly graph.

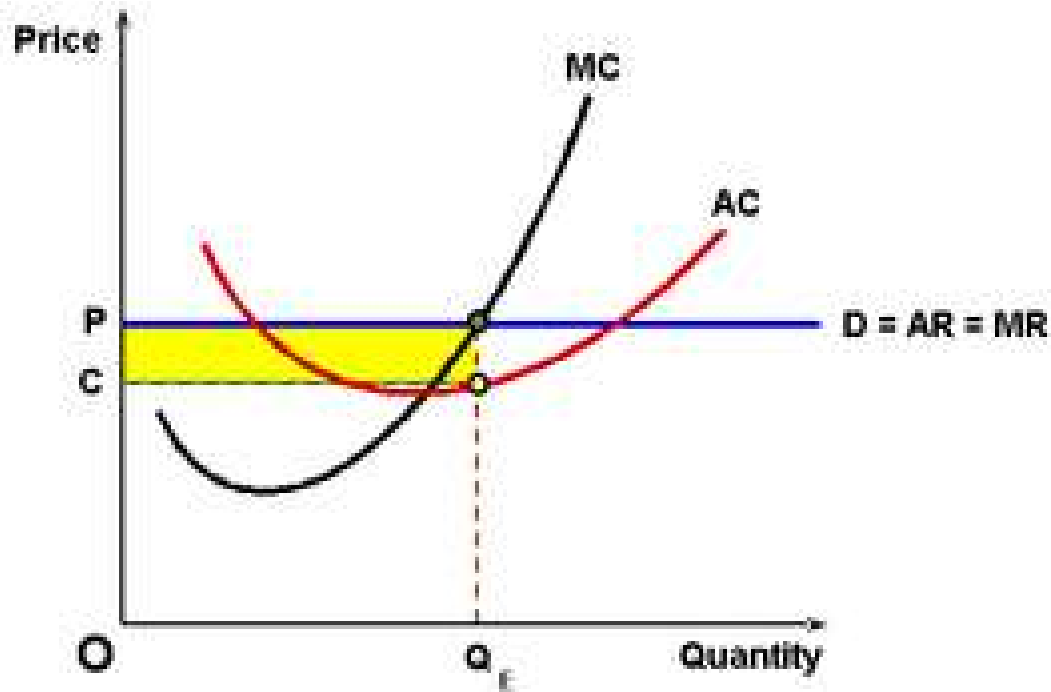
Figure 10-2 The Profit Maximizing Level of Output for a Monopoly Firm



- This graph shows the profit that occurs within a monopoly. ^^^

Continued....

- Profit in a perfectly competitive market.



Free Response Questions

- Question 1- a&d)
- Question 2-b)
- http://www.collegeboard.com/prod_downloads/ap/students/economics/ap07_frq_Microeconomics.pdf
- Answers
- http://www.collegeboard.com/prod_downloads/ap/students/economics/ap07_sg_micro.pdf

Economic Art

- <http://www.google.com/search?sclient=psy&hl=en&safe=active&q=economics+in+60+seconds+mr%3Dmc&aq=f&aqi=&aql=&oq=&pbx=1&emsg=NCSR&noj=1&ei=k949TabFEcjYgAfKk4mfCA>