

3.4 Types of Profit

Name: _____ Class: _____ Date: _____

Total: 10 marks

KEY WORDS economic profit 经济利润 • implicit costs 隐性成本 • accounting profit 会计利润
• explicit costs 显性成本 • normal profit 正常利润

Objective

Build the skills to answer exam questions on **types of profit**.

You must be able to:

- distinguish **explicit costs** 显性成本 from **implicit costs** 隐性成本
- calculate **accounting profit** 会计利润 ($TR - \text{explicit costs}$)
- calculate **economic profit** 经济利润 ($TR - \text{explicit} - \text{implicit costs}$)
- define **normal profit** 正常利润 ($\text{economic profit} = 0$)

1 Worked examples

Study these first. Each one shows the method for a question type used later.

■ Two kinds of profit

- **Accounting profit** = total revenue – **explicit** costs.
- **Economic profit** = total revenue – explicit – **implicit** costs.

Implicit costs include the opportunity cost of the owner's own resources.

■ Normal profit

The level of profit where **economic profit** = 0 — the owner is doing exactly as well as in the next-best alternative. Economic profit is the correct signal for firms to **enter** or **exit** a market.

2 Practice

2.1 State the difference between accounting and economic profit.

[2]

2.2 A firm has $TR = \$200k$, explicit costs = $\$120k$, and implicit costs = $\$50k$. Find its economic profit. [2]

2.3 Define normal profit. [1]

3 Exam-style questions

3.1 Economic profit equals total revenue minus [1]

- | | |
|---|---|
| A | B |
| C | D |
- A** explicit costs only
B implicit costs only
C both explicit and implicit costs
D taxes only

3.2 Normal profit occurs when economic profit is [1]

- | | |
|---|---|
| A | B |
| C | D |
- A** positive
B zero
C negative
D at its maximum

3.3 A firm earns $TR = \$150k$ with explicit costs $\$90k$ and implicit costs $\$60k$.

- (a) Find the accounting profit. [1]
(b) Find the economic profit. [1]
(c) State whether the owner should stay in this business. [1]