AP MICROECONOMICS • EXERCISE SHEET

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 − explicit costs)
- calculate **economic profit** 经济利润 (TR − explicit − implicit costs)
- define **normal profit** 正常利润 (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 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 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]