

3 Profit and perfect competition – Part 2 —Answers

Answers

Work through these after you have tried the questions yourself.

2.1 produce where marginal revenue equals marginal cost ($MR = MC$).

2.2 accounting profit subtracts only the money costs paid; economic profit also subtracts the opportunity costs of the owner's own resources.

2.3 $150,000 - 90,000 = \$60,000$.

2.4 economic profit = $60,000 - 50,000 = \$10,000$.

2.5 economic profit attracts new firms to enter, increasing supply and lowering the price until profit is competed away to zero.