

3 Profit and perfect competition – Part 2

Name: _____ Class: _____ Date: _____

Vocabulary 词汇

Write each word three times. 把每个单词抄写三遍。

English	中文	Write it 3 times (English)
marginal revenue	边际收益	_____
Economic profit	经济利润	_____
Perfect competition	完全竞争	_____

Recall

In Part A you met a firm's costs. Now how much it should make, and what "profit" really means:

- A firm wants to make the most profit it can.
- Profit is what is left after paying costs.
- But economists count the cost of missed opportunities too.

Each idea has a worked example before the Practice.

New ideas

■ 1 Profit maximization

Every firm makes the most profit at the quantity where **marginal revenue** 边际收益 (the extra revenue from one more unit) equals **marginal cost**:

$$MR = MC.$$

Make each unit whose revenue beats its cost; stop where they are equal.

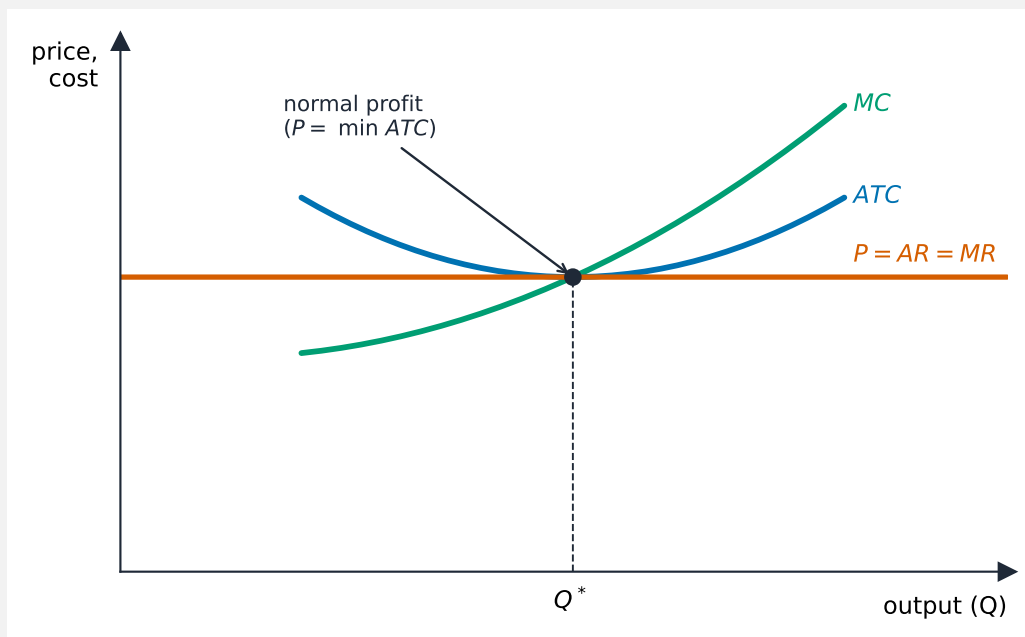
■ 2 Two kinds of profit

- **Accounting profit** = revenue – the money costs you pay.
- **Economic profit** 经济利润 = revenue – money costs – the opportunity costs of your own resources.

Worked example. A shop earns \$200,000 and pays \$120,000 in costs, so accounting profit is \$80,000. But the owner gave up a \$70,000 salary elsewhere, so economic profit is $80,000 - 70,000 = \$10,000$.

■ 3 Perfect competition

Perfect competition 完全竞争 has many small firms selling an identical product, with free entry. Each firm is a **price taker** –too small to change the market price.



■ 4 The long run

In perfect competition, profits attract new firms (entry) until economic profit falls to **zero** –firms just cover all their costs, including opportunity costs.

Watch out: zero **economic** profit is not the disaster it sounds –it means the owner is earning exactly what their resources could earn elsewhere. It is a perfectly acceptable, “normal” outcome.

Practice

Try these in order. The methods are all above.

2.1 State the rule for the profit-maximizing quantity.

[1]

2.2 State the difference between accounting profit and economic profit.

[2]

2.3 A business earns \$150,000 and pays \$90,000 in costs. Find the accounting profit. [2]

2.4 The owner gave up a \$50,000 salary. Find the economic profit. [2]

2.5 Explain why firms in perfect competition earn zero economic profit in the long run.[2]