

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 (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]

Solutions

2.1 accounting profit subtracts only explicit costs; economic profit subtracts both explicit and implicit costs.

2.2 $200 - 120 - 50 = \$30\text{k}$.

2.3 the profit earned when economic profit is exactly zero.

3.1 C.

3.2 B.

3.3 (a) $150 - 90 = \$60\text{k}$. (b) $150 - 90 - 60 = \$0$. (c) yes — it earns normal profit, matching the next-best alternative.