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.