# 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.

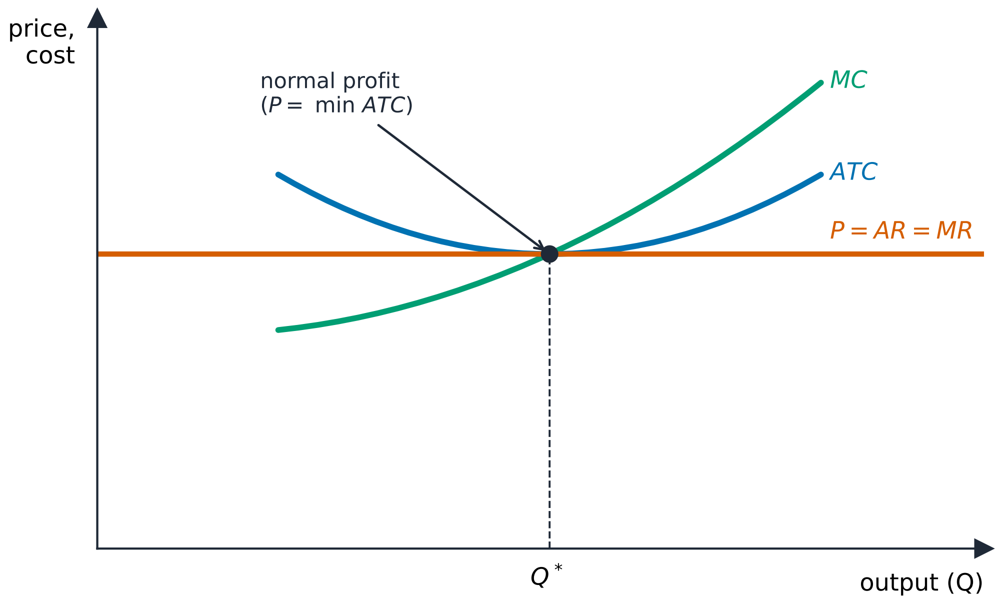
## ■ 2 Two kinds of profit

- **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]