

accounting profit = total revenue - explicit costs

- explicit costs are payments firms make to purchase resources and products

Economic profit = the difference between total revenue and the sum of its explicit and implicit cost

EX 1: Should Pudge continue farming or quit?

- if he quits, earns 11,000 / year working in retail
- explicit costs are 10,000
- total revenue is 22,000
- Accounting profit = total revenue - explicit cost
 - $22,000 - 10,000 = 12,000$
- Economic profit = total revenue - explicit cost - implicit cost
 - $22,000 - 10,000 - 11,000 = 1,000$
 - therefore, he should continue farming because his economic profit is positive
- normal profit = accounting profit - economic profit
 - $12,000 - 1,000 = 11,000$

EX 2: Should Pudge continue farming or quit?

- if he quits he earns 11,000 per year working retail
- explicit costs = 10,000
- total revenue = 20,000
- Accounting profit = total revenue - explicit costs
 - $20,000 - 10,000 = 10,000$
- economic profit = total revenue - explicit - implicit
 - $20,000 - 10,000 - 11,000 = -1,000$
 - therefore, pudge should quit because he isn't making any money.

3/9 review

Accounting Profit

Economic Profit

Normal Profit

Economic profit in the long run is always zero

- $P = MC = ATC$

Cost benefit - continue something only if marginal benefit is as great as marginal cost