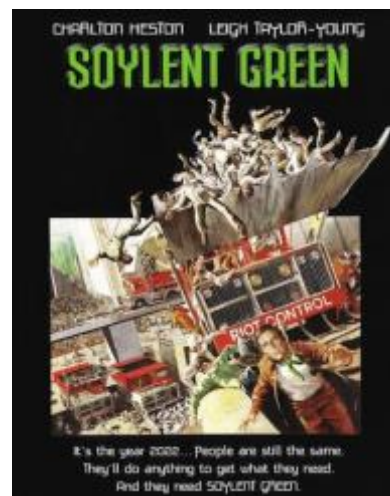


CONCEPT: REVENUE, COST, AND PROFIT

- Our focus moves from the economy as a whole to just one firm.
- **Revenue** is the amount of money received from sales calculated as: _____

☐ Revenues are the _____ to a firm

EXAMPLE: In the year 2022, the price of soylent green is 500 space credits. If a company sells 25,000 units of soylent green per year, and the cost of producing soylent green is 100 space credits per unit, what is its total revenue?



- **Cost** is the value of the inputs of production.
 - ☐ Costs are the _____ to a firm
 - ☐ **Explicit Costs** – A cost that involves _____
 - ☐ **Implicit Costs** – Non-monetary _____ costs

Examples of Explicit Costs for “Elon Musk Cakes”:	Examples of Implicit Costs for “Elon Musk Cakes”:

- **Profit** is the _____ between revenue and cost: _____
 - ☐ **Accounting Profit** = _____
 - ☐ **Economic Profit** = _____

PRACTICE: Fast Fingers Freddy gives banjo lessons for \$50 per hour. One day, he spends 8 hours planting \$100 worth of seeds on his farm. If the seeds yield \$600 worth of crops, what is his accounting profit and economic profit?

- a) Accounting profit = \$600; Economic Profit = \$500
- b) Accounting profit = \$500; Economic Profit = \$500
- c) Accounting profit = \$500; Economic Profit = \$100
- d) Accounting profit = \$0; Economic Profit = \$100

PRACTICE: Ricky Smooth opens up a hunch punch stand in his dorm room every Wednesday for two hours. He spends \$40 on ingredients and sells \$120 worth of hunch punch. In those same two hours, Ricky could have been a nude model for the art department earning \$60. Ricky Smooth has an accounting profit of _____ and an economic profit of _____.

- a) Accounting profit = \$60; Economic Profit = \$20
- b) Accounting profit = \$80; Economic Profit = \$60
- c) Accounting profit = \$80; Economic Profit = \$20
- d) Accounting profit = \$20; Economic Profit = \$80

PRACTICE: Sweetie Nick has dreamt of owning a candy store his whole life. Unfortunately, after a few wrong turns, Sweetie Nick finds himself stuck in a job he hates, earning a nice salary of \$100,000, but he is completely dead inside. One day, Sweetie Nick is fed up and decides to quit his job and open a candy store. He takes his \$300,000 savings, which were earning 5% interest, and buys a property downtown. In his first year, Sweetie Nick sells \$220,000 worth of candy that he purchased for \$80,000. He also paid utilities of \$2,000 and hired a cashier that earned \$16,000 throughout the year. What is Sweetie Nick's accounting profit and economic profit?

- a) Accounting profit = -178,000 ; Economic Profit = -278,000
- b) Accounting profit = 122,000; Economic Profit = 7,000
- c) Accounting profit = 122,000; Economic Profit = 22,000
- d) Accounting profit = 22,000; Economic Profit = 0

CONCEPT: REVENUE, COST, AND PROFIT

- Costs can be broken up into two different categories:

- ☐ **Fixed Costs** – Costs that _____ as output changes
- ☐ **Variable Costs** – Costs that _____ as output changes
- ☐ **Total Costs** = _____

Examples of Fixed Costs for “Elon Musk Cakes”:	Examples of Variable Costs for “Elon Musk Cakes”:

- To calculate an average cost, just divide by _____

Average Fixed Cost:	Average Variable Cost:	Average Total Cost:

- There are two time periods in economics:

- ☐ **Short Run** – The time period where at least one cost is _____

-

-

- ☐ **Long Run** – The time period where all costs are _____

-

-

PRACTICE: A short run cost function assumes that:

- a) The level of output is fixed
- b) All inputs are fixed
- c) At least one input is fixed
- d) Both (a) and (c)
- e) None of the above

PRACTICE: A company currently has total costs of \$4,096 when producing 128 units. If total fixed costs equal \$1,024, what is average variable cost?

- a) \$8
- b) \$24
- c) \$2,048
- d) \$3,072
- e) None of the above

PRACTICE: Rose incurs \$7,200 per month in fixed costs operating her floral shop. She pays her employees \$9 per hour and had three assistants working 120 hours this month. Her other variable costs were \$800 this month. What are Rose's total variable costs and total costs this month?

- a) Total variable costs are \$800; total costs are \$8,000
- b) Total variable costs are \$800; total costs are \$11,240
- c) Total variable costs are \$3,240; total costs are \$11,240
- d) Total variable costs are \$4,040; total costs are \$11,240