

10.52- DEFINING PROFIT

10.52- Compare and contrast different types of profit and cost.

By: Carter Greene

KICKOFF:



- ❖ Go to Google Classroom and complete the assignment **“11/20- K0”**
 - Let’s say LeBron James retired from the NBA to start his own business. From a financial standpoint, how could we determine if LeBron made the right decision?
- ❖ Pick up both handouts on the way in, **not K0**
- ❖ **Roll Call:** Dream School

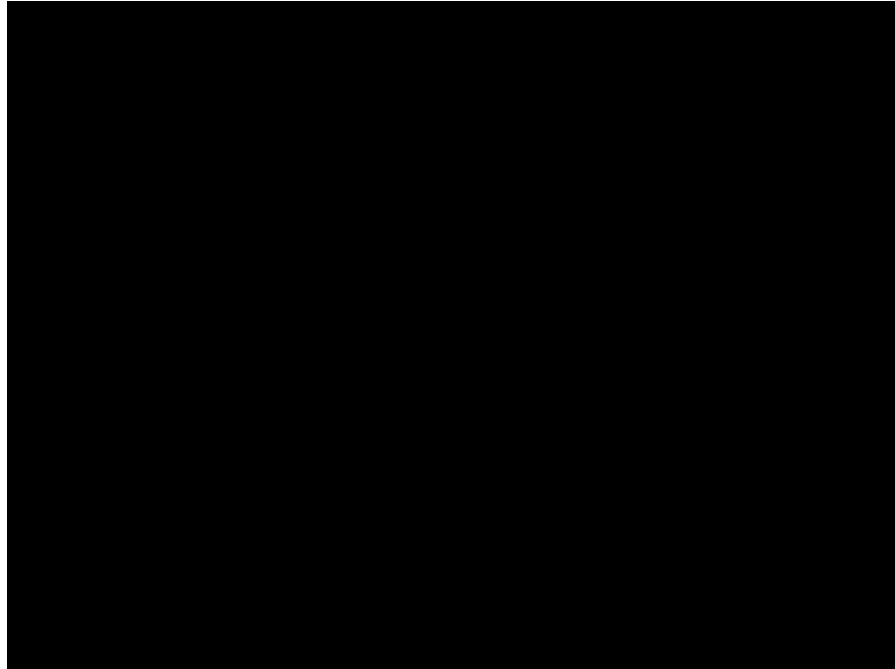
ANNOUNCEMENTS:

- ❖ **11/22-** Have Module 53
- ❖ **11/26-** Next Quiz
 - Modules 52 and 53
- ❖ 90 minute classes this week
 - Homeroom next
 - Different lunch on Friday
- ❖ A lot of informal grades I still need to get in the gradebook → Utility and KOs/Closures

TEST ANALYSIS:

- ❖ I have picked 6 highly missed and essential questions from your test
- ❖ Go through each questions, write down your answer and your rationale for that answer
 - INDIVIDUALLY
- ❖ Now, talk with your group about each question. Try and come to a consensus for each question, write your new answer, and your new rationale/ draw your graphs.

UNIT 4/SECTION 10- BEHIND THE SUPPLY CURVE: PROFIT,
PRODUCTION, AND COSTS



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WHAT IS THE GOAL OF ANY BUSINESS?

- ❖ To make and maximize profit
- ❖ Profit = Revenue - Cost
 - Total Revenue - Total Cost
- ❖ Revenue = Price X Quantity
- ❖ Cost = ?????
 - Marginal cost, total variable cost, total fixed cost, total cost, average total cost, average variable cost, average fixed cost, short-run cost, long-run cost, sunk cost, opportunity cost
 - Explicit and Implicit

TYPES OF COSTS- EXPLICIT VS. IMPLICIT

- ❖ Explicit Cost- out of pocket payments that are actually made
 - Money is physically spent
 - Labor, rent, equipment, utilities, etc.
- ❖ Implicit Cost- value of the benefits that are foregone
 - The Opportunity Cost
 - Foregone salary, alternative use of resources, etc.

TYPES OF PROFIT

❖ Accounting Profit =

- Revenue - Explicit Costs
- Number that must be reported for tax purposes, to investors, etc.

❖ Economic Profit =

- Revenue - Explicit & Implicit Cost
- Almost always less
- Most important because it takes into account opportunity cost as well



NORMAL PROFIT

- ❖ Normal Profit- when economic profit = 0
 - Resources cannot be made better off in any other activity
 - Firm is earning enough economic profit to stay in business

TO GO TO COLLEGE OR NOT TO GO TO COLLEGE? - LEBRON

- ❖ Had LeBron decided to go to college, he would have had it entirely paid for through an athletic scholarship. In going straight from high school to the NBA, LeBron received a \$13 million contract from the Cavaliers and a \$90 million contract from Nike. Had LeBron gone to college, what would the explicit cost have been? What would the implicit cost have been? Should LeBron have gone to college?
- ❖ Explicit cost: \$0
- ❖ Implicit cost: \$103 million
- ❖ No, LeBron should not have gone to college.



BREAKING NEWS!! THE KING RETIRES



LEBRON SUDDENLY...RETIRES... TO OPEN... A ... TACO TRUCK??

- ❖ LeBron James retires from the NBA to chase his dream of opening a taco truck. He will be foregoing his entire, \$36 million salary he would have earned in 2019–2020 from the Lakers. In his first year his taco truck earns \$60 million in revenue. He has \$30 million in explicit cost (wages, food, insurance, etc.). Calculate LeBron's accounting profit and economic profit. Did LeBron make the right decision in opening this food truck? Why?
- ❖ Accounting profit = \$30 million
- ❖ Economic Profit = -\$6 million
- ❖ No, because he does not make economic profit
- ❖ What would LeBron's accounting profit need to be in order to make a normal profit?
 - \$36 million

EXPLICIT V. IMPLICIT COST OF... GOING TO COLLEGE

- ❖ You may talk with people around you but this should be done individually
- ❖ In this assignment you will find both the explicit and implicit cost of attending a 4 year university.

CLOSURE

- ❖ Go to Google Classroom and complete the assignment **“11/20- Closure”**
 - Suppose you own a coffee shop. Give 4 examples of explicit costs and 3 examples of implicit costs for this coffee shop.
 - Explain the following statement: “Economic profits signal the best use of resources.”