

### Answer on Question #38834 – Economics – Macroeconomics

Profit equals Total Revenue minus Total Costs.

With current technology, suppose a firm is producing 400 loaves of banana bread daily. Also assume that the least-cost combination of resources in producing those loaves is 5 units of labor, 7 units of land, 2 units of capital, and 1 unit of entrepreneurial ability, selling at prices of \$40, \$60, \$60, and \$20, respectively. If the firm can sell these 400 loaves at \$2 per unit, what is its total revenue? Its total cost? Its profit or loss? Will it continue to produce banana bread? If this firm's situation is typical for the other makers of banana bread, will resources flow toward or away from this bakery good?

#### Solution

$Q = 400$ . 5 units of labor, 7 units of land, 2 units of capital, and 1 unit of entrepreneurial ability, selling at prices of \$40, \$60, \$60, and \$20, respectively.  $P = \$2$  per unit.

Total revenue  $TR = P \cdot Q = 2 \cdot 400 = \$800$ .

Total cost  $TC = 5 \cdot 40 + 7 \cdot 60 + 2 \cdot 60 + 1 \cdot 20 = \$760$

Profit  $TP = TR - TC = 800 - 760 = \$40$

As the firm is profitable, it will continue to produce banana bread.

If this firm's situation is typical for the other makers of banana bread, resources will flow toward this bakery good.