

Answer on Question#39163 – Economics - Economics of Enterprise

A person managing a laundry for someone else for \$30,000 per year decides to open his own laundry. Revenue during the first year of operation is \$100,000 and the expenses are \$3,000 for salaries, \$10,000 for supplies, \$8,000 for rent, \$2,000 for utilities and \$5,000 for interest for a bank loan. Calculate

- (A) Explicit cost
- (B) Implicit Cost
- (C) Accounting Profit
- (D) Economics Profit

Solution

(A) Explicit cost = Salaries expenses +Supplies expenses +Rent expenses +Utilities expenses=

$$= \$3,000 + \$10,000 + \$8,000 + \$2,000 = \$23,000$$

(B) Implicit Cost (opportunity cost) = \$30,000

(C) Accounting Profit = Revenue - Explicit cost = \$100,000 - \$23,000 = \$77,000

(D) Economics Profit = Revenue - Explicit cost - Implicit cost = \$100,000 - \$23,000 - \$30,000 = \$47,000