

## Answer on Question #40618 – Economics – Microeconomics

### Assignment

Suppose Charlie Brown opens a lemonade stand. He hires Linus and Lucy for \$12 a week (\$6 each). He rents pitchers and spoons from his mother for \$5 a week and spends \$20 a week on paper cup, lemons, sugar and other materials. Before he opened the stand, he was earning \$15 a week selling newspapers. He grosses \$72 in revenues a week from lemonade sales. Calculate accounting costs, economic costs, accounting profit and economic profit. Evaluate how Charlie's lemonade business is doing.

### Solution

\$12 (\$6 each) - salary,

pitchers and spoons - \$5,

\$20 - materials.

\$15 - selling newspapers before,

\$72 - revenues.

Accounting costs = all explicit costs =  $12 + 5 + 20 = \$37$  a week

economic costs = explicit costs + implicit costs =  $37 + 15 = \$52$  a week

accounting profit = revenue - accounting costs =  $72 - 37 = \$35$  a week

economic profit = revenue - economic costs =  $72 - 52 = \$20$

So, as his profit is higher, than his salary before, his business is doing good.