

Answer on question #59616 -Economics - Microeconomics
Economic Profit.

What is the economic profit given this set of projects?

Project Acct Profit

W 100

X 400

Y 250

Z 520

Solution

Economic profit calculated as accounting profit minus opportunity cost.
The opportunity cost is the value the next best alternative.

Project	Accounting Profit	Economic profit
W	100	-420
X	400	-120
Y	250	-270
Z	520	

The best choice is the project Z that has the biggest accounting profit.
The opportunity cost is the accounting profit of the second best option that will not be selected.
It is project X with profit 400.
The choosing of project Z gives the economic profit equals 120 (520-400), 270 (520-250) and 420.

Answer

The economic profit from doing project Z equals 120, 270 and 420 respectively.