**TUTORIAL 2**

**OPPORTUNITY COST**

1. Marshall runs a small pottery firm. He hires one helper at $ 12,000 per year, pays monthly rent of $ 420 for his shop and spends $ 20,000 per year on materials. He has $ 40,000 of his own funds invested in equipment (pottery wheels, kilns and so forth) that could earn him $ 4000 per year if alternatively invested. He has been offered $ 15,000 per year to work as a potter for a competitor. He estimates his entrepreneurial talents are worth $ 3000 per year. Total annual revenue from pottery sales is $ 72,000. Calculate the accounting and economic profit for Marshall’s pottery firm.
2. Mr. Mehra operates small shop specializing in party favors. He owns the building and supplies all his own labor and Rs 120,000 money which was kept in a bank earning 5% monthly rate of interest. Before starting his own business, he earned Rs 12,000 p.m. by renting out the store and earned Rs 25,000 p.m. as a store manager for a large departmental store. His monthly revenue from operating his shop are Rs 1,00,000 and his total monthly expenses for labor and supplies amounted to Rs 60,000.Calculate his accounting and economic profit.
3. Smith quit his job as an auto mechanic earning $ 50,000 per year to start his own business. To save money, he operates his garage out of a small building he owns which, until he started his own business had rented out for $ 10,000 per year. He also owns an apartment which he has rented out for $15,000 per year. He has also invested his $20,000 savings (earning 5% per year) into his business. For first year of his operations total revenue is $ 1, 20,000, employee wages $ 40,000, material cost $15,000 and rental of equipment $5000. Calculate accounting cost, economic cost & economic profit.
4. After working for one year with a company, Deepak decided to start up his own venture for which he took loan of Rs. 25 lakhs @12 p.a. Along with this; he invested his own money Rs 50 lakhs, which was earning 10% p.a. in a bank. His other expenses were: employee salary Rs. 30,000 per month, raw material Rs 45,000 per month, other expenses Rs. 5,000 per month. Further he had to pay taxes which were 20% of the economic profit of the first year. The first year revenue was Rs 30 Lakhs. Earlier Deepak was getting a salary of Rs 10 lakhs. Calculate total explicit cost, implicit cost, accounting profit, and economic profit. Is the business profitable for the first year?
5. Tilly’s Trilbies has estimated the following revenues and expenditures for the next fiscal year:

Revenues $6,800,000 Cost of goods sold 5,000,000

Advertising 100,000 Rent 350,000

Insurance 50,000 Miscellaneous expenses 100,000

1. Calculate Tilly’s accounting profit.
2. Suppose that to open her trilby business, Tilly gave up a $250,000 per year job as a buyer at the exclusive Hammocker Shlumper department store. Calculate Tilly’s economic profit.