

CH-310-A Microeconomics - Theory and Policy

Chapter 9 of Krugman and Wells

Implicit and explicit costs

Sarah's accountant tells her that she made a profit of \$43,002 running a pottery studio in Orlando. Sarah's husband – an economist – claims Sarah lost \$43,002 running her pottery studio. This means her husband is claiming that she incurred *blank* in *blank* costs.

- (a) \$86,004; implicit
- (b) \$43,002; implicit
- (c) \$43,002; explicit
- (d) \$86,004; explicit

Opportunity costs

Which of the following statements about opportunity cost is not true?

- (a) Opportunity cost may be larger than monetary cost.
- (b) Opportunity cost includes both explicit and implicit costs.
- (c) The real or opportunity cost of something is what you must give up to get it.
- (d) The term opportunity cost is synonymous with explicit costs.

George owns a gun range in Texas. He pays \$32,000 per year in insurance, \$408,000 in wages, \$23,000 in supplies, and he forgoes \$32,000 per year he could make as a police officer. His total revenue last year equaled \$460,000. That means his economic *blank* equaled *blank*.

- (a) profit; \$3,000
- (b) losses; \$3,000
- (c) losses; \$35,000
- (d) profit; \$35,000