

accounting profit \rightarrow profit on sheets.

economic profit \rightarrow total profit - opportunity cost.

/ bought in the market (explicit cost).

opportunity cost - own by the firm (implicit cost)

\ supplied by the owner ^{entrepreneurship} ~~centerpreneurship~~.

waste \Rightarrow use up \checkmark / depreciation.
~~decreasing~~ in value \checkmark

buy sth $\times \Rightarrow$ it is a transfer from money
 form to a physical form.

cost of entrepreneurship: going s/w else to get a
 higher paid

max profit: profit earn here - profit earned in the
 best alternative.

decisions $\left\{ \begin{array}{l} \text{short} \rightarrow \text{resources that the firm use.} \\ \text{long} \rightarrow \text{sink cost (licence, etc)} \\ \text{avoidable cost.} \end{array} \right.$

production function: how the inputs becomes output

total production.

marginal product: production of one more unit
 of labor.

resource bought in the market: the firm could ~~use~~^{buy} different resource to produce different goods. (opportunity cost).

owned by firm: the firm could have sold the capital to rent capital from other firm. \Rightarrow the firm implicitly rent the capital from itself.

implicit rental rate \Rightarrow opportunity cost of using the capital
 \leftarrow economic depreciation: change of the market value
interest forgone: the return on the fund.

supplied by the owner: the owner supply both labor and entrepreneurship; the opportunity cost is the wage that the owner can get working in other firm.

normal profit: the profit that the entrepreneurship expected to earn on average.

short run:

Short run: a time frame in which the quantity of one or more resources used in production is fixed

↑
easily reversed
hard ↘
capital ← Firm's plant is fixed in a short run.
other resources: labors, raw material, energy can be changed in a short run.

Long run: a time frame in which all the resources, including plant size, can be varied.

sunk cost: the cost that cannot be changed.

↑
unavoidable e.g. the cost of a licence.

TABLE 10.1 Economic Accounting

Item	Amount	
Total Revenue		\$400,000
<i>Cost of Resources Bought in Market</i>		
Wool	\$80,000	
Utilities	20,000	
Wages	120,000	
Computer lease	5,000	
Bank interest	<u>5,000</u>	\$230,000
<i>Cost of Resources Owned by Firm</i>		
Economic depreciation	\$25,000	
Forgone interest	<u>15,000</u>	\$40,000
<i>Cost of Resources Supplied by Owner</i>		
Cindy's normal profit	\$45,000	
Cindy's forgone wages	<u>55,000</u>	\$100,000
Opportunity Cost of Production		<u>\$370,000</u>
Economic Profit		<u>\$30,000</u>