

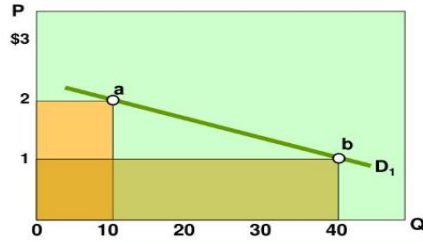
# Cost vs. Profit correlation

## The Total Revenue Test

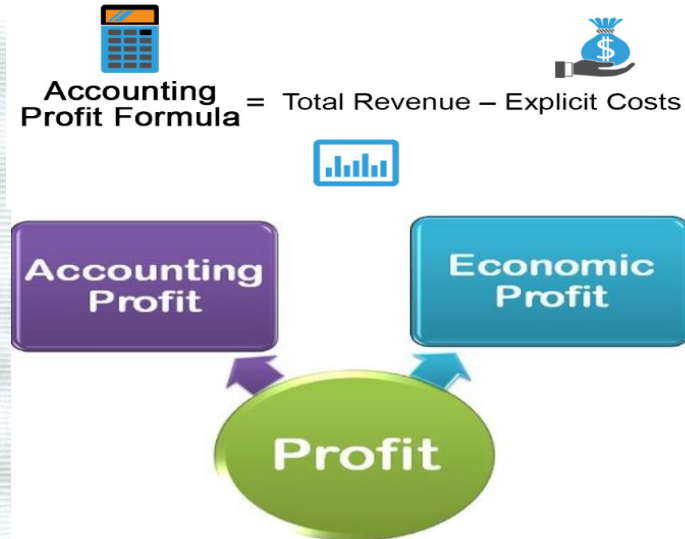
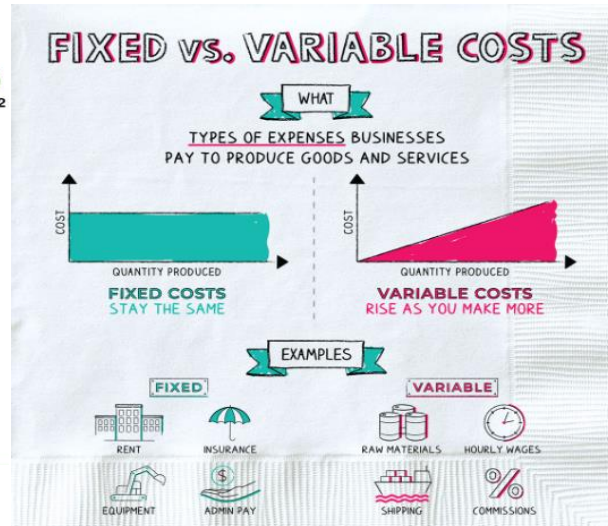
### • Total Revenue (TR)

$$TR = P \times Q$$

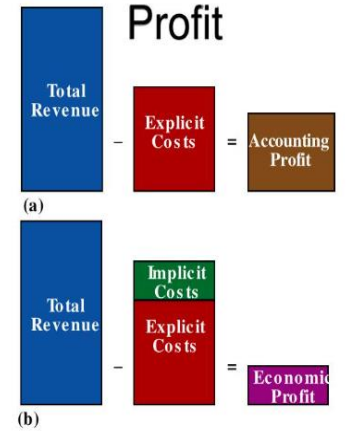
### Elastic Demand



W 18.2

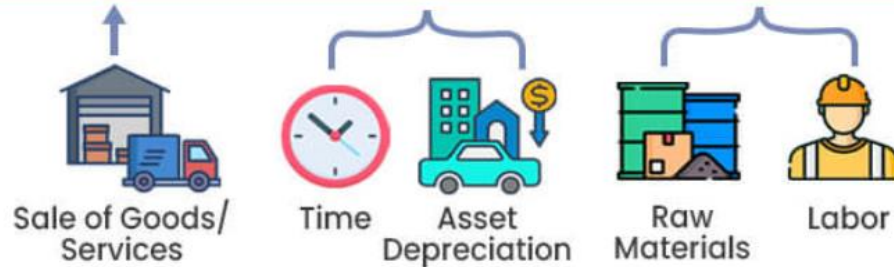


## Accounting and Economic Profit



## Economic Profit

$$\text{Formula} = \text{Revenue} - \text{Implicit Costs} - \text{Explicit Costs}$$



### Example

$$\begin{aligned} \text{Economic Profit} &= \text{Revenue} - \text{Implicit Costs} - \text{Explicit Costs} \\ &= \$100 - \$30 - \$50 \\ &= \$20 \end{aligned}$$

## Concept of Cost - Explicit cost and Implicit cost

Cost refers to the total expenditure incurred by a producer explicitly or implicitly on the factors as well as non-factor inputs for a given output of a commodity.

### Explicit Cost

Explicit Cost refers to the expenditure incurred by the producer to buy the inputs from the market.



Purchase of machinery for production

### Implicit Cost

Implicit Cost refers to the cost of using self-owned inputs.



Rent of own Building