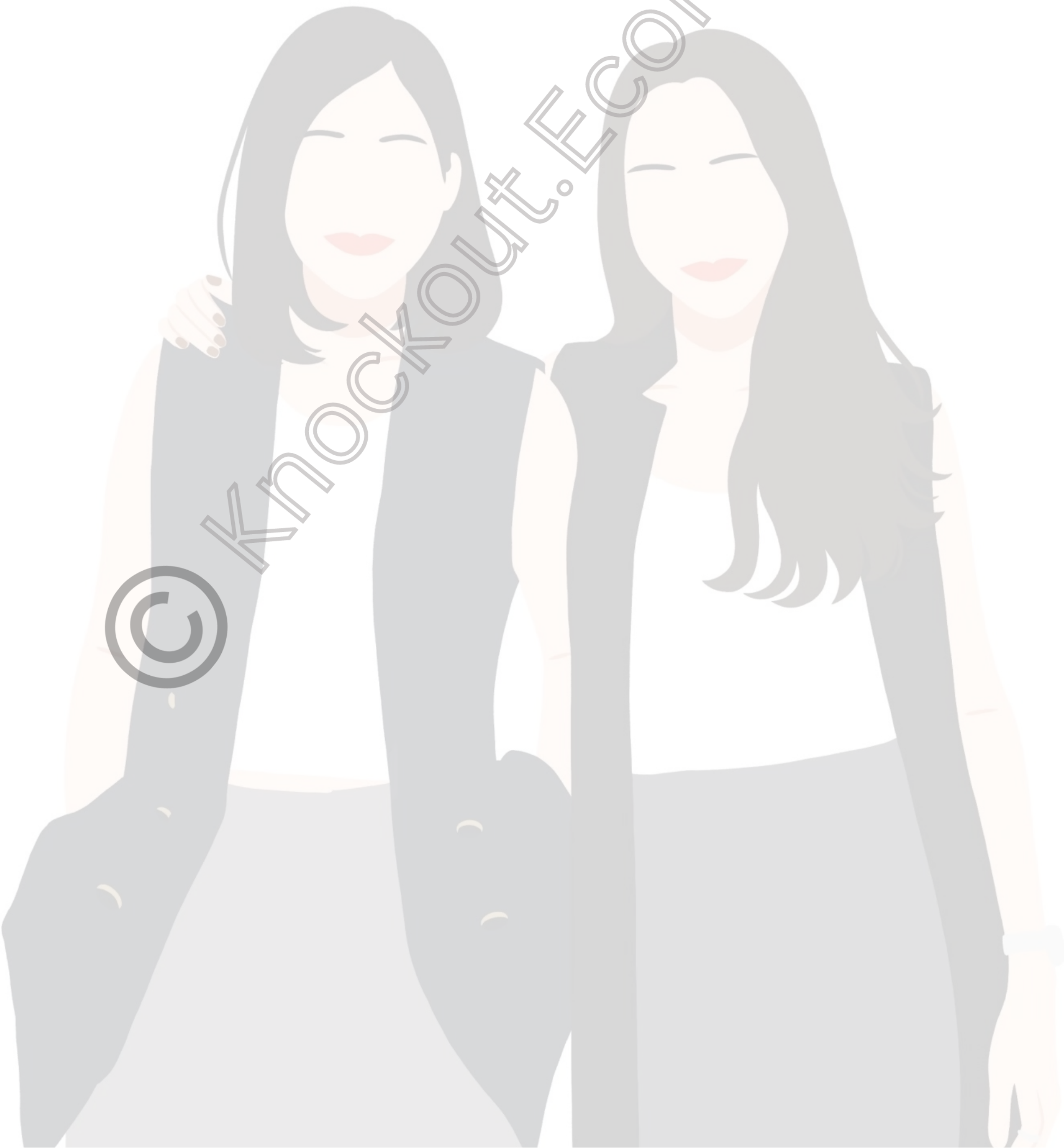
CHAPTER 7 : Profit and loss

Key terms

1. Long-run shut down : where normal profit is not being earned in the long run
2. Normal profit : the profit that the firm could make by using its resources in their next best use. Normal profit is an economic cost.
3. Profit : the difference between total revenue and total cost
4. Short-run shut down : where variable costs are not being covered
5. Supernormal profit : the profit over and above normal profit



1. Profit

: the difference between total revenue and total cost

2. Normal profit

: Zero profit or Total revenue = Total Cost

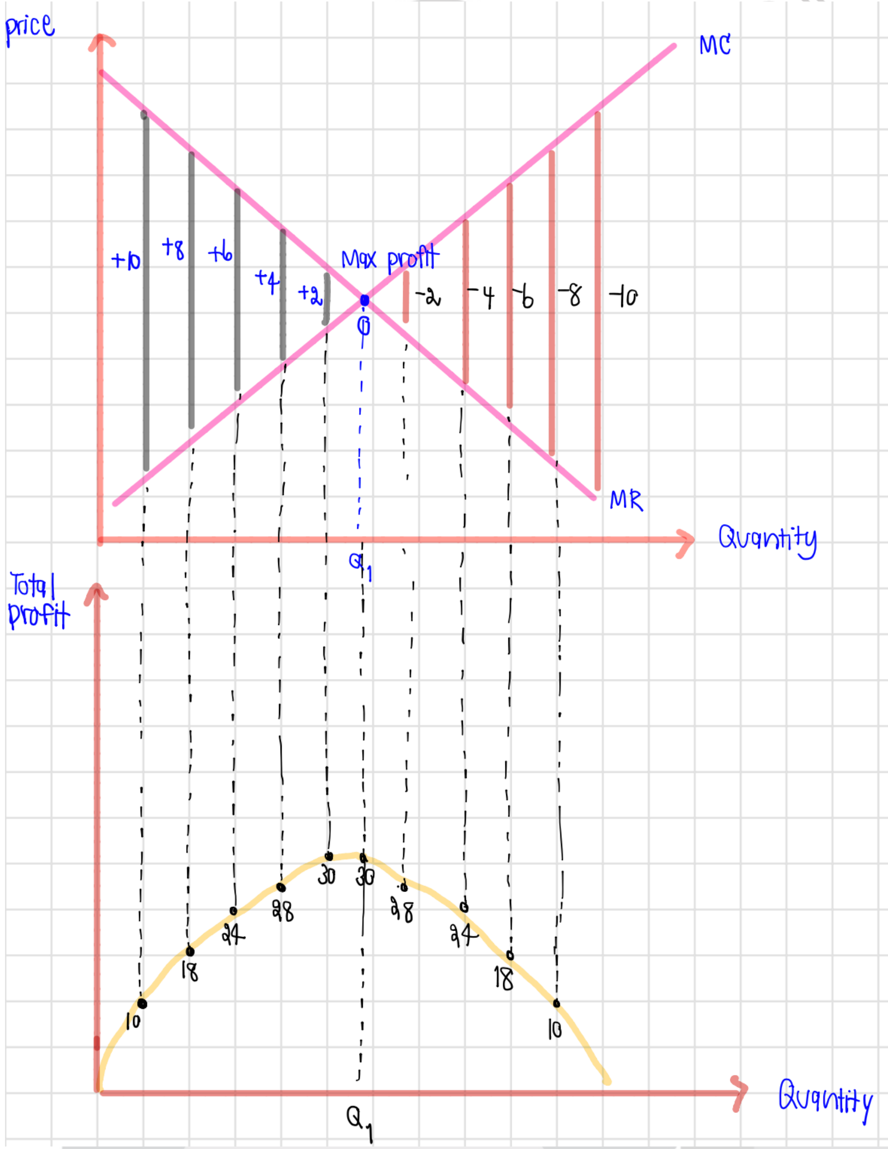
3. Supernormal / Abnormal profit

: Profit is higher than zero or profit over the opportunity cost of resources used in the production by firm attracts firm into the country

4. Profit maximisation

: To find out maximise profit ; MR = MC

Diagram



- If MR > MC, total profit increases
- If MR < MC, total profit decreases
- If MR = MC, Maximise profit