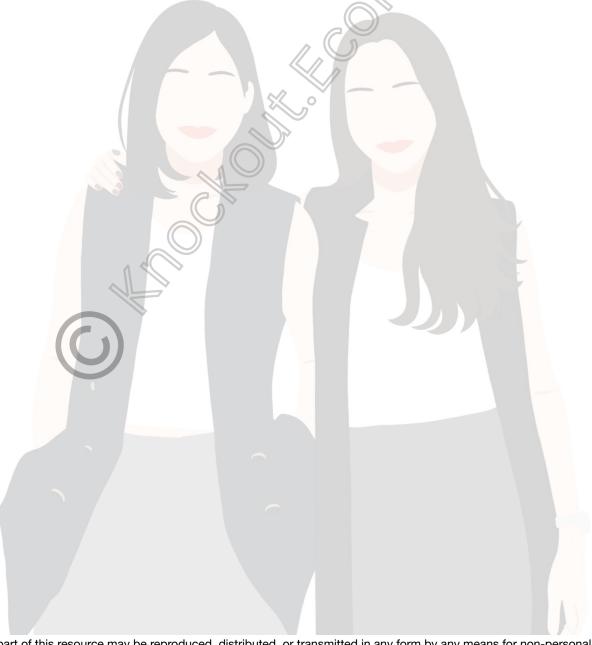
CHAPTER 7: Profit and loss

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



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1. Profit

: the difference between total revenue and total cost

2. Normal profit

: Zero profit or Total revenue = Total Cost

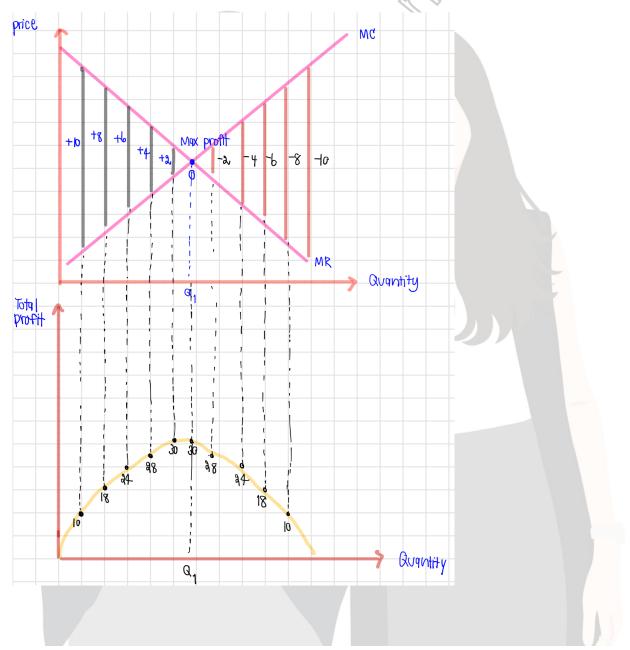
3. Supernormal / Abnormal profit

: 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

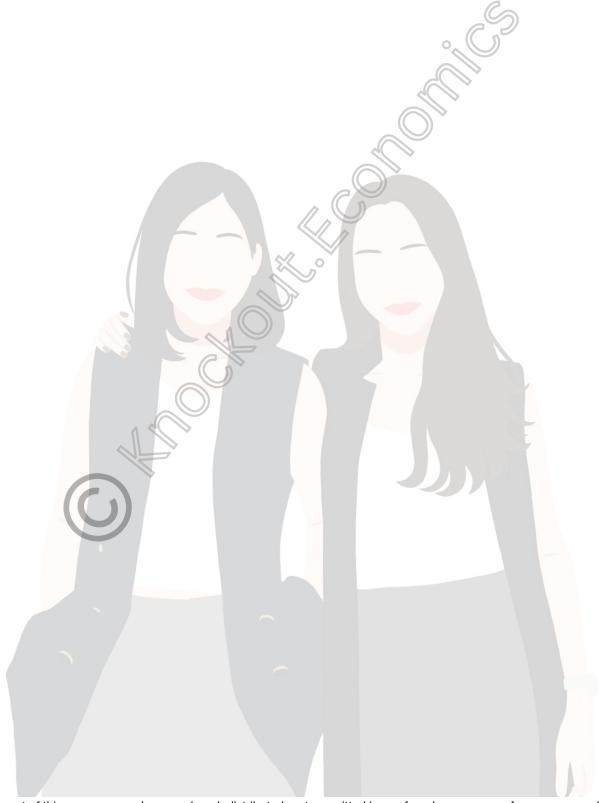
Diagram



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



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