MICCOST.TXT
business
how to maximize profits?
profit =
total revenue - total cost = TR-TC
total revenue =
price times quantity = PQ
perfectly competitive business
price taker
example: market price $80

marginal cost: cost of producing one more unit
if P>MC and you produce one more: profits will increase
at profit maximizing point: P=MC

average cost: AC=TC/Q (or ATC) **fixed cost** = total cost if Q=0 **variable cost:** VC = total cost - fixed cost VC = TC - FC
average variable cost: AVC= VC/Q
short run: at least one input is fixed **long run:** all inputs are variable **law of diminishing returns:** in short run,
if you keep expanding production:
marginal cost eventually rises

P=44
MC=P when Q=
5
profit =
-20
should we shut down?
Q=0, profit =
-48
fixed cost: amount you have to pay
even if you shut down (only applies in
short run)

P=32
MC=P when Q=

4
profit =
-68
should we shut down?
Q=0, profit =
-48

rules:
if P>AC: positive profits
if P<AC: negative profits (losses)
if P>AVC: stay in business in short run
if P<AC: in long run, shut down

relation between average and marginal
if MC is above AC,
then AC is:
rising
MC crosses AC at
the minimum of average cost

part of MC is the same as the...
supply curve
if 1,000 firms in industry:
market supply curve: add up all the
individual firm supply curves

if positive economic profits are being made...
more firms attracted to industry
the market price:
falls

long run equilibrium in a perfectly
competitive market:
zero economic profit

Kermit: rents \$100,000 factory
revenue: \$60,000 per year
lease: \$8,000 per year
other direct cost:\$51,000 per year
Fozzie: owns identical factory
revenue: \$60,000 per year
direct cost: \$55,000 per year

accounting profit total revenue - direct cost
Kermit:
60,000-59,000 = \$1,000
Fozzie:
60,000-55,000 =\$5,000

opportunity cost what you lose by not doing
next best alternative
includes direct cost plus implicit cost
Fozzie: implicit cost=\$8,000 per year
(what he could make if he leased
his factory to Kermit)

profit
accounting profit=revenue - direct cost
economic profit=revenue-total opportunity cost economic profit=revenue-(direct+implicit cost)
economic profit=accounting profit-implicit cost

Fozzie: economic profit
total revenue: \$60,000
direct cost: \$55,000
accounting profit: \$5,000
implicit cost: \$8,000
economic profit: -3,000

lawyer with own practice
revenue: \$80,000
direct cost: \$25,000
accounting profit:\$55,000

implicit cost?
could take job with other firm: \$65,000
economic profit:
-\$10,000

two important type of implicit cost:
small business: value of owner's time
all businesses: value of capital
that the firm owns

Business A: \$1 million acc. profit
Business B: \$100,000 acc. profit
Business A: invested \$100 million
Business B: invested \$1 million
suppose 5 percent rate of return
Business A opp. cost:
\$5 million
Business B opp. cost:
\$50,000

opportunity cost of college
tuition: direct cost
implicit cost:
lost earnings
living expenses?
benefits?

concert ticket
paid \$20 for it three months ago
what is opportunity cost now
of concert ticket?
if it can be resold for \$10: opp.cost=10
if it can be resold for \$50: opp.cost=50
if it can't be resold: opp.cost=0
sunk cost

opportunity cost
if you own something: ask what is alternative?

if no alternative: it is a sunk cost

MICCEN17.TXT
alternative to market system
centrally controlled system
socialism
communism
writer:
Karl Marx (1818-1883) 1848: Communist Manifesto
1867: Capital
1) materialist determinism
2) view of religion:
against
3) value comes from
labor
4) workers
oppressed
5) predict workers will
revolt
6) eventually state withers away

revolutionary leader:
Lenin 1917: Russian revolution

Lenin's successor:
Stalin: 1924-1953 1) collectivization of agriculture
2) emphasis on heavy industry
3) control of information
4) purges
5) pact with
Hitler
6) control of Eastern Europe

Soviet leaders: Khrushchev
denounce Stalin's crimes (1955)
October 4, 1957:
Sputnik
Brezhnev 1964-1982

Soviet Union: new leader in 1985:

Mikhail Gorbachev glasnost: openness
perestroika: reform

centrally controlled economy
advantage: guaranteed job
problems?
1) incentive for individuals
2) incentive for organizations
3) coordination problem
5) Stalinist system: control of information

Poland
1979: visit by
Pope John Paul II
1980: Solidarity union
April 1989: agreement to schedule elections

Fall of 1989 Germany:
Berlin wall opens

China

13th century visitor:
Marco Polo
viewed China as
rich
1434:
turn toward isolation

after 1839: encounters with Europe
result?
forced trade / colonial sections
last emperor:
1911
instability, World War II, civil war

1949: new leader:
Mao
1958:
Great Leap Forward
1966 - 1976:
Great Proletarian Cultural Revolution
1972: visit from
Richard Nixon
1976:
death of Mao
new leader from 1978 to 1997:
Deng Xiaoping
Four modernizations
1) agriculture
2) science and technology
3) national defense
4) industry