

# Economic profit

[Literature](#), [Russian Literature](#)



Economic Profit Question Added value = value of products or services – cost of producing such products or providing the services

Microsoft

Added value = value of output – wages and salaries – cost of materials – cost of capital

Added value = 2, 750 – 400 – 1, 650 – 40

Added value = \$660

Barclays bank

Added value = \$5, 730 – 3, 953 – 916 – 556 = \$305

General Motors

Added Value = 50, 091 – 29, 052 – 15, 528 – 7, 507 = -\$1996

Question 5

Economic profit is a better measure of profit than accounting profit because it considers opportunity cost and other hidden costs which are ignored by accounting profit (Black, 2003). Economic profit is positive if the value of output is greater than all explicit and implicit costs.

Question 6

When a new technology makes another one obsolete in terms of economic profit, a firm such as Firm B which uses the new technology will incur less explicit and implicit costs while making its products and services more effective and efficient. This attracts more customers and earns more revenue. A firm such as firm A which uses old technology will incur more costs and earn less revenue.

Question 9

In measuring economic profit, one-time event is considered as part of the

elements of economic profit because a profit is a profit whether recurring or not (Black, 2003). Extraordinary and non-recurring items are taken into consideration.

Money provided by relatives to get the business started is considered as a starting capital which is a cost because there is an opportunity cost of how to use such money. So, they are subtracted from the value of output to get the economic profit.

Off-balance sheet expenses are also treated as costs which are subtracted from the value of outputs because they reduce economic profit. They may not be included in the firm's balance sheet but they are included as explicit costs in measuring economic profits.

#### References list

Black, J. (2003). Oxford Dictionary of Economics. New York: Oxford University Press.