

Central role of economic profit

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



Central Role of Economic Profit Introduction This is an essay to analyze role of economic profit. To understand this, a case study involves a theater that has seating for 1, 200 people. For the past days, tickets have been sold out since they were affordable, cost \$ 5 per ticket. The manager would like to increase tickets fees, a move deemed to decrease attendance.

Impacts

Economic profit is the difference between the revenue attained from the opportunity price of the inputs utilized and the sale of an output. In computing economic profit, opportunity costs are subtracted from revenues attained. Opportunity costs are the substitute returns predetermined by using the selected inputs (Malloy, 2004). As an outcome, one can have a considerable accounting profit with slight to no economic profit. In the case scenario, cost of preparing tickets and preparing the theater could be price of input and the ticket sale is the revenue.

Reduction in sale of tickets will reduce with increase of prices. The business could continue to make accounting profit; however, this may not sustain the business for long. Economic profit role is to ensure that resources are directed toward the practices that generate the most profit. Profit is a sign that the clients of that service or good want more of it (Malloy, 2004). The action of manager would not generate the most profit out of the theater due to decrease in attendance. If the prices are doubled and attendance reduce by more than a half due to other factors like immediate competitors then the business would collapse.

Conclusion

It is necessary for the manager to consider benefits of economic profit

compared to accounting profit.

Reference

Malloy, R. P. (2004). *Law in a market context: An introduction to market concepts in legal reasoning*. Cambridge, UK: Cambridge University Press.