

Critical thinking 1

Literature, Russian Literature



Math problem, macro & micro economics Salvatore's chapter A) Discussion question: 9 From economic point of view, the difference between the two is that in economic profit, the profit or loss generated is computed arithmetically by taking revenue of sales subtracting opportunity cost of all inputs of a business. On the other side, business profit is calculated by subtracting total cost incurred to earn the revenue from the total revenue generated. Therefore, in business profit normal return is the minimum profit required to cover the entire expenses and costs of inputs associated with it. In one case or the other, it can be a profit more than a break even profit point. Economic profit is the estimate of a forgone good. In businesses, the normal profit is required business profit and not in economic profit.

b. problems : 6, 9, and (spreadsheet (p37) attached)

5.

Year

Cash flow

Disc rate (10%)

N p v

1

75000

$(1+0.1)^{-1}$

68181.82

2

75000

$(1+0.1)^{-2}$

61983.47

3

75000

$(1+0.1)^{-3}$

56348.61

4

75000

$(1+0.1)^{-4}$

51226.01

5

75000

$(1+0.1)^{-5}$

46569.10

6

75000

$(1+0.1)^{-6}$

42335.54

The total present value of the project 326644.55

The manager should choose the second project that promises an annual profit of \$75000 for the next six years because it has a total present value greater than the other project.

6.

Year

Cash flow

Disc rate (20%)

N p v

1

75000

$(1+0.2)^{-1}$

62500

2

75000

$(1+0.2)^{-2}$

52083.33

3

75000

$(1+0.2)^{-3}$

43402.78

4

75000

$(1+0.2)^{-4}$

36168.98

5

75000

$(1+0.2)^{-5}$

30140.82

6

75000

$(1+0.2)^{-6}$

25117.35

The total present value 249413.26

The when the discount rate increases to 20% the manager should choose the project that generate annual profit of \$100000 because it has a total present value greater than the other investment project.

9. 1). The explicit cost = salary for h/help + rent +supplies

$$45000+10000+15000+ 1000 = \$81000$$

The economic profit = revenue - explicit costs = $120000-(81000+25000) = \$14000$

Return on investment = $(14000/81000) = 17.28\%$

Froeb et al.'s Chapter 3:

a. 3- 1. Opportunity cost

The Bruce Springsteen concert is valued at \$100 and the other concert costs \$80

The opportunity cost of seeing Bruce Springsteen is $\$(100-80) = \20

3-3. Housing bubble

If at all the interest on mortgage loan deduction were reduced or removed, then the homeowners will be hurt is a fallacy. Buyers will have to pay low prices. This because home owners get a deduction in tax which a renter paying the same amount will never get. The savings are forced every month in beginning of a mortgage. Owning property such as house is the only avenue for an ordinary person to employ leverage that not only create risk but also rewards. Persons who rent outwardly think they put extra in investments but when subjected to scrutiny it is a fallacy. A house is an asset that depreciates slowly as compared to other assets. The scenario only focuses on the percentage increase in houses but do not provide an argument what return on capital is.

Salvatore's chapter 3:

a. Discussion Questions: 9

If a sales manager happens to announce that a marketing program is being utilized to maximize sales, I would advocate for the program scaled down because the marginal revenue is equal to zero. When the sales are maximum, the marginal revenue is at zero. When now this happen, the marginal cost exceeds marginal revenue, this means that the marketing strategy is yielding too much. For the betterment of the outcome, the marginal revenue should be equal to marginal cost.

b. 1(a), 7 and 9

1. (a) $TR = 9Q - Q^2$

Q

TR

AR

MR

0

0

-

-

1

8

8

8

2

14

7

6

3

18

6

4

4

20

5

2

5

20

4

0

6

18

3

-2

7

Q

TC

AC

MC

0

1

0

-

1

12

12

12

2

14

7

2

3

15

5

3

4

20

5

5

9. Profit = marginal revenue - marginal cost

$$P = MR - MC$$

$$TR = 9Q - Q^2$$

MR =

Profit function = $9 - 2Q - MR$

Froeb et al.'s chapter 4:

a. Individual problems: 4-5

The total number of claims in larger high- tech facility 10000 claims

$TC = FC + VC$ in this case the $TC = \$200000$

$VC = TC - FC$

$VC = (200000 - 100000) = \100000

Variable cost is depends on no of claims = $(100000/10000)$

= \$10 per claim

On low tech facility

$TC = FC + VC$

$(16000+24000) = \$40000$

$VC = 40000-16000 = \$240000$

Variable cost depends on number of claims

Each claim will cost $(24000/2000) = \$12$ per claim

4-6

In this case we compare MPL and MPC

Since copiers = 2x workers,

Let the price of a copier be \$2 and the price of a worker be \$1.

Our MPL in this case = 50000 per 5 workers

= 10000 pages per worker

= 10000 pages cost of \$1 to be spent.

= MPC = 100000 adds 2 copiers

= 50000 pages per copier

= 50000 pages per \$2 spent

= 25000 pages per \$1 spent

The analysis shows that indeed there is more number of pages being

produced at a lower cost. I would advocate buying more copiers as they will

generate more profits.

References

Pirayoff, R. (2004). Cliffsap Economics Micro & Macro. Hoboken, NJ: Wiley.