Module 52 Practice Problem

Larry has decided to quit his job working at Quickie-lube and become an entrepreneur. He ***had*** been earning $2500 per month performing oil changes. Since he has his own garage, which he ***had*** been renting out for $400 per month, he has decided to open his own oil changing business. His monthly costs and revenue are shown below. **Note:** Assume no depreciation (aka dryer link!)

Price of oil change-$25

Oil changes per month=200

Cost of oil=$5 per oil change

Equipment rental=$200 per month

Other expenses=$1,000 per month

Questions:

What is Larry's total revenue for the month? (PxQ) $25x200= **$5,000**

What are Larry's explicit costs for the month? Oil=1,000, rental fees=200, and other=1,000 = **$2,200**

If an accountant figured Larry's profit, what would it equal? (5,000-2,200)= **2,800**

What costs does Larry have that are not considered by the accountant? (2,500 foregone + 400 rent) = **2,900**

If an economist calculated Larry's profit, what would it equal? $5,000-(2,200+2,900)= **-100**

What does the negative economic profit signal to Larry? **He would have made more if he had stayed at Quickie-lube.**