

# PROFIT



$$P = TR - TC$$

*Profit has several meanings in economics. At its most basic level, profit is the reward gained by risk taking entrepreneurs when the revenue earned from selling a given amount of output exceeds the total costs of producing that output.*

**To the economist, normal profit is a cost and is included in the total costs of production.**

**The level of super-normal profits available to a firm is largely determined by the level of competition in a market.**

**Marginal profit is the additional profit from selling one extra unit. At profit maximisation, marginal profit is zero because  $MC=MR$ .**

**Firms achieve maximum profits when  $MC$  is equal to  $MR$ .**

When profits are generated, they can be retained by the firm or distributed to the owners. A government may provide tax incentives for those firms that retain their profits, and use them for investment. Distributed profits are generally subject to corporation tax.