

T-Shirt Company Example

Assumptions:

1. A person had been a sales representative for a t-shirt firm and was earning \$22,000 annually.
2. Owner invests \$20,000 in personal saving that had been earning \$1000 a year in interest.
3. Puts the store in a building owned by the t-shirt entrepreneur that had been renting at \$5000 per year.
4. Owner hires a clerk and pays \$18,000 per year.

Total Sales Revenue		\$ 120,000
Cost of T-Shirts	\$ 40,000	
Clerk's Salary	18,000	
Utilities	5,000	
Total Explicit Costs		63,000
Accounting Profit		\$ 57,000

Above example ignores the implicit costs of \$1000 in interest, \$5000 in rent and \$22,000 in wages. If normal profit is \$5,000, economic profit is \$24,000.

Accounting Profit		\$ 57,000
Foregone Interest	\$ 1000	
Foregone Rent	5,000	
Foregone Wages	22,000	
Normal Profit	5,000	
Total Implicit Costs		33,000
Economic Profit		\$ 24,000