

2. How has the proportion of women in the labour force been increasing since 1940?
3. Why have workers been leaving the farms?
4. How does education influence the labour force?
5. How do market forces affect wages?

Define the following words and expressions.

employ	advanced technology
major	enable
blue colour	drop out
consolidate	complete
white colour	

1.13. PROFIT (Part 1)

Profits remain after the **costs** of production have been **deducted** from sales. These costs include wages and salaries, materials, **rent**, **interest charges**, and more. The profit motive is the force that drives the economic system. You know that the job of an economic system is to **allocate** the scarce resources that go into **creating** goods and services. These sources are factors of production (land, capital, labor, and entrepreneurship). Profits drive entrepreneurs to risk capital, hire workers, and purchase what they need to produce goods and services. Profits also provide the **incentive** to improve products, reduce costs, and **outsell** competitors.

Economists say that the primary goal of every firm is to make the largest possible profit, or to maximize profits. If it does anything else, it would soon be out of business. In its **quest** for profits, one of the first things a firm must decide is its level of production. To understand a firm's **reasoning** look at how profits are determined. A firm's total profit is the difference between its earnings from the sale of its product (or its total revenue) and the amount it pays to produce that product (or its total cost).

Total Revenue – Total Cost = Total Profit

The firm **selects** the production level at which it makes the greatest profit. This is not necessarily the same as its highest production level. After conducting a market survey, the Ajax Doughnut Bakery discovered the following:

Daily Production	Profits
50 boxes	\$ 30
75 boxes	40
100 boxes	35

If you were the manager of Ajax Doughnut, how many boxes of doughnuts would you produce each day: 50? 75? 100? In this case it makes sense to produce 75, since that will yield the greatest profit.

How does a firm **calculate** its profit-maximizing output level? One way would be through **trial and error**. That is, the bakers could produce one box of doughnuts the first day, two the second, and so on until they reached their maximum daily output. But this method is **time-consuming** and costly. An easier method is what economists call **marginal analysis**, which uses pencil and paper to examine what happens when a firm decides to produce one more unit of output. Here is how it is done.

As long as the production of one more box of doughnuts adds to Ajax's profits, it pays to bake that box. To an economist, the income from the production of one more unit is **marginal revenue**. **Marginal profit** is the difference between marginal revenue and **marginal cost** – the cost of production one more box:

$$\text{Marginal Revenue} - \text{Marginal Cost} = \text{Marginal Profit}$$

Answer the following questions.

1. What is the source of profits?
2. What drives the economic system?
3. What is the job of an economic system?
4. How do the profits help to solve economic problems?
5. What is the primary goal of every firm?
6. What is the first thing for any firm to be decided?
7. What is a firm's total profit?
8. What are the ways to calculate the profits?
9. What is marginal profit?

Define the following words and expressions.

cost	calculate
deduct	marginal profit
reasoning	create
marginal analysis	incentive
rent	trial and error
interest	marginal cost
select	outsell
marginal revenue	quest
charge	time-consuming method
allocate	