

Chapter 9: Organizing Production

Important Concepts from Chapter 9 (pages 196-197 & 199-200):

- + A firm's goal is to maximize profit
 - + Two types of costs
 - + Accountant vs. economist
 - + Types of explicit costs
 - + Types of implicit costs
- + Technological and economic efficiency

Know the answers to the following questions:

1. Why do accountants and economists calculate a firm's cost and profit in different ways?
2. What are the items that make opportunity cost differ from the accountant's cost measure?
3. Is a firm technologically efficient if it uses the latest technology? Why or why not?
4. Is a firm economically inefficient if it can cut costs by producing less? Why or why not?
5. Explain the key distinction between technological and economic efficiency.

Work these Problems:

1. One year ago, Jack and Jill set up a vinegar-bottling firm (called JJVB). Use the following information to calculate JJVB's explicit costs and implicit costs during its firm year of operation:
 - a. Jack and Jill put \$50,000 of their own money in the firm
 - b. They bought equipment for \$30,000.
 - c. They hired one employee to help them for an annual wage of \$20,000.
 - d. Jack gave up his previous job, at which he earned \$30,000 and spent all of his time working for JJVB.
 - e. Jill kept her old job, which paid \$30 an hour, but gave up 10 hours of leisure each week (for 50 weeks) to work for JJVB (assume she works 30 hours a week now).
 - f. The market value of the equipment at the end of the year was \$28,000.

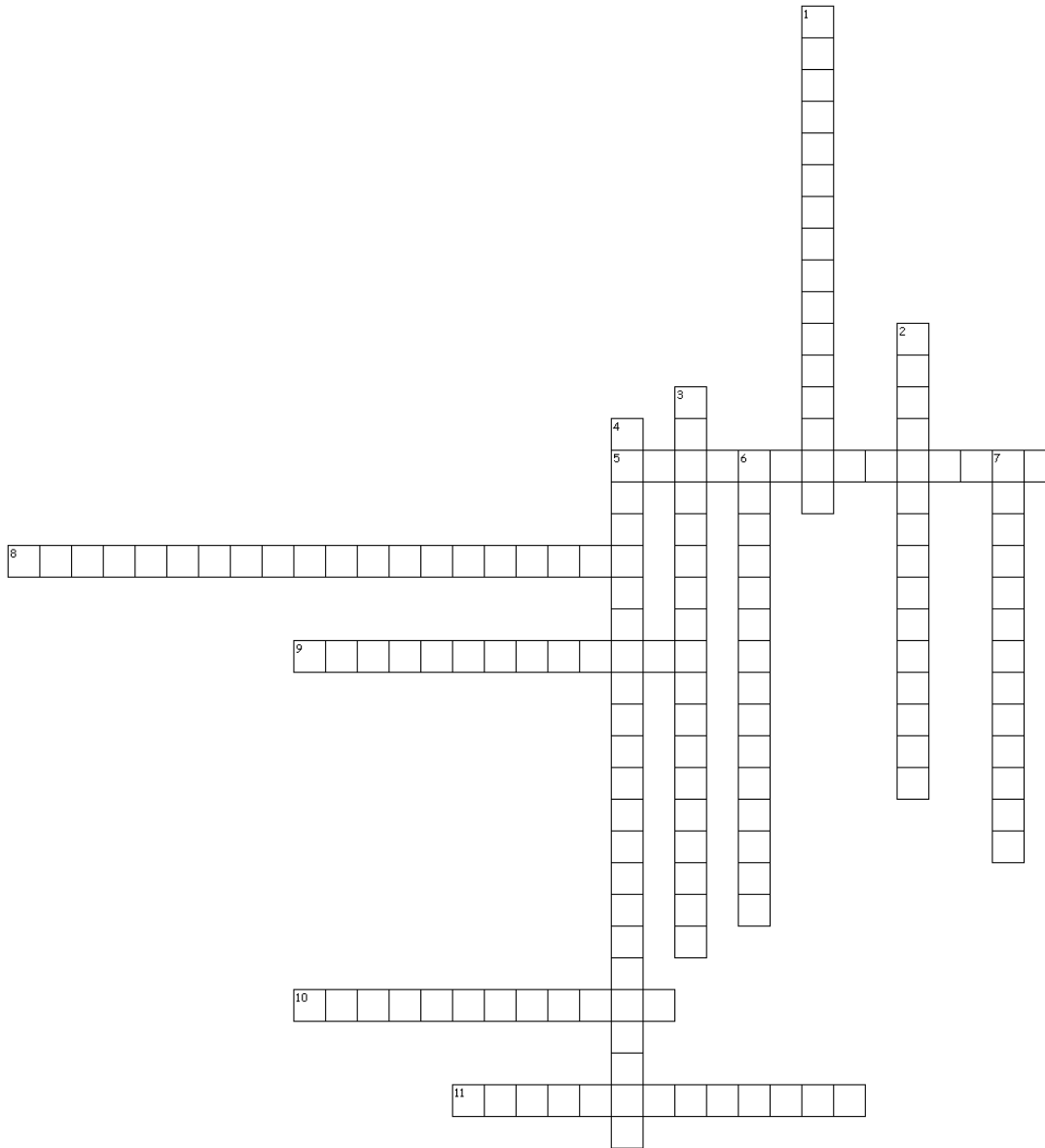
2. Alternative ways of laundering 100 shirts are

Method	Labor (hours)	Capital (machines)
A	1	10
B	5	8
C	20	4
D	50	1

- a. Which methods are technologically efficient?
- b. Which method is economically efficient if the hourly wage rate and implicit rental rate of capital are:
 - i. Wage rate \$1, rental rate \$100
 - ii. Wage rate \$5, rental rate \$50
 - iii. Wage rate \$50, rental rate \$5

Chapter 9 Crossword Puzzle

Each of the terms in the puzzle is found in Chapter 9 in the textbook.



Across

5. Equal to the firm's total revenue minus its opportunity costs.
8. The change in the market value of capital over a given period of time.
9. The opportunity cost of using the firm's own capital (also known as the implicit rental rate).
10. The return that an entrepreneur can expect to receive on average.
11. Obvious costs or costs paid in money.

Down

1. The firm's owner's skills, such as organizing the business, makes business, decisions, etc.
2. The funds used to buy capital could have been used for some other purpose and they would have yielded a return or an interest income.
3. Occurs when the firm produces a given output at the least cost.
4. Occurs when the firm produces a given output by using the least amount of inputs.
6. The highest valued alternative forgone (in production, the value of the firm's best alternative use of its resources).
7. Occurs when a firm forgoes an alternative action but does not make a payment.