Name: ____________________ Date: ____________

CHAPTER 3, SECTION 2

Outlining Activity

Look through the chapter for an overview of the material. Pay attention to the main topics in the book. As you scan each section of the book, fill in the missing words in the following outline.

I. Profits and Losses

A. Profit equals total ____________________ (price of a good times the units of the good sold) minus total ____________________ (average cost of a good times the number of units of the good sold).

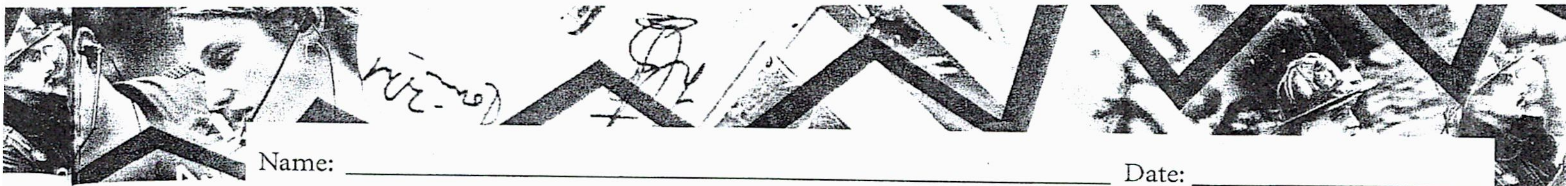
B. A loss occurs when total cost is greater than total revenue.

II. Profit and Loss as "Signals"

A. Profits and losses are signals to the firms earning the profits or taking the losses.

B. Profits and losses in firms are signals to other firms. Firms enter an industry when there are profits to be earned and exit when there are losses.

C. Resources flow ____________________ profit. Resources flow ____________________ from losses.



Name: ______________________ Date: ______________

CHAPTER 3, SECTION 2

Just the Facts Handout

Profits and Losses

Profit is the amount of money left over after all the costs of production have been paid. Profit can also be described in terms of total revenue and total cost.

Total revenue is the price of a good multiplied by the number of units of the good sold. Total cost is the average cost of a good multiplied by the number of units of the good sold. When total revenue is greater than total cost, a firm earns a profit.

When total cost is greater than total revenue, a loss occurs. A **loss** is the amount of money by which total cost exceeds total revenue.

Profit and Loss As "Signals"

Profits and losses are signals to the firms earning the profits or taking the losses. If a firm is earning a profit, it continues to produce its product. If a firm is taking a loss, it will likely discontinue its product or reduce production of the product.

Profits and losses are also seen as signals to enter or exit the industry. Profits attract firms to enter the industry. Losses encourage firms to exit the industry.

Answer questions 1–5 in the Section 2 Assessment on page 65 of your textbook.