

LESSON 12

Profits and entrepreneurship

TIME REQUIRED:

One or Two Class Periods

CONCEPTS:

Total Revenue

Cost of Production

Profit

Return on Investment

Fixed Costs (Optional Activity)

Variable Costs (Optional Activity)

INSTRUCTIONAL OBJECTIVES:

Students will:

- Discuss the role of profit as the basic incentive for running a business in the United States
- Compute the cost of production for a given business venture
- Distinguish between fixed and variable costs of production and give examples of each (Optional Activity)
- Identify and explain alternative measures of profit and their implication for measuring the profitability of an entrepreneurial enterprise (Optional Activity)
- Compare revenue and cost data to determine profitability of an entrepreneurial venture

RATIONALE::

People become entrepreneurs for many reasons, including the desire to earn a profit. A commonly used measure of profit is the difference between a firm's revenue and its costs. Such a simple definition can be misleading if it excludes considerations of alternative uses for the entrepreneur's time or money. A person who spends 70 hours a week working in a business should not exclude the value of his or her time and labor from the measure of the firm's costs. Someone who invests \$100,000 in a firm must realize that the same money deposited in a bank would have earned substantial interest. This too should be included in the firm's costs. Entrepreneurs who

fail to recognize these facts may overstate the profitability of their firms and as a result under price their products.

MATERIALS:

- Activity 44 "How big is the profit slice of pie?"
- Activity 45 "How is the pie divided?"
- Activity 46 "Fixed and variable costs" (Optional)
- Activity 47 "Profit projection form"
- Activity 48 "Deciding on a club enterprise" (Optional)
- Activity 49 Comprehension quiz, lesson 12

VOCABULARY:

Profit	the difference between a firm's total revenue and total cost of production
Return on Investment	profit as a percentage of the amount invested in a firm
Total Revenue	selling price multiplied by the quantity sold
Fixed Costs	costs of production that remain the same as the quantity of goods or services produced changes
Variable Costs	costs of production that change as the quantity of goods or services produced changes
Total Cost	the sum of all costs of production, both fixed and variable

PROCEDURES:

1. Select several students and ask them why they might consider becoming an entrepreneur or why they think anyone would want to become an entrepreneur. Most will probably say they want to get rich or earn a profit. Through discussion, help the students understand that the profit motive is one of the basic incentives for becoming an entrepreneur. (For discussion of other incentives, see Lesson 2.)
2. Write the definition of profit on the board. Help students to define "total revenue" and "total cost." (It is not necessary at this time that students understand the difference between fixed and variable costs; they should, however, know the major categories of expense that are included in the cost of production, e.g., labor, rent, utilities, etc.)
3. Distribute Activity 44. Go over the instructions with the students; then have them complete the handout individually or working in pairs. Explain that the circumference of the circle is divided into 100 equal parts.
4. Allow several minutes for the students to complete the pie graph. Ask several students to tell the class how much of the pie they thought was profit. How much was spent to pay the cost of merchandise? How much to pay for operating expenses?
5. Project a transparency of Activity 45 (or use the activity as a handout). Tell students that the graph shows the results of a survey of U.S. retailers. Have the students compare this with their pie graphs. Have them discuss why they thought the amount of profit earned by retailers was more (or less) than that shown

on the graph. Discuss the implications of the small profit margin for entrepreneurs.

6. Choose two local firms with which the students are familiar---one that is doing well, and one that is not. Ask the students to suggest reasons for the second firm's apparent failure. Have the students suggest steps that the failing business could take to improve its profits. List their suggestions on the board using a chart similar to the following:

Reasons for failure	Actions needed to increase profits
1.	1.
2.	2.

7. *Optional Activity:* Fixed and Variable Costs

- From the list compiled in procedure 6, select items as examples of fixed and variable costs of production.
- Write the definitions of fixed costs and variable costs on the board. Have the students give additional examples of each.
- Distribute copies of Activity 46. Have students complete the exercise in small groups or as an entire class, discussing the answers as they work through the items.

EVALUATION:

Lesson without Optional Activity. Have students complete Activity 47 or select appropriate items from Activity 49.

Lesson including Optional Activity. Have students complete Activity 48 or use Activity 49.

ACTIVITY 44

How big is the profit slice of pie?

INSTRUCTIONS

Assume that you are the owner of a successful retail store, and the circle (pie) below represents the total revenue for one year.

Out of the revenue earned, you must pay for the merchandise you sold. You must also pay operating expenses. Of course, you also expect to make a profit. Divide the circle (pie) to show what portion of the total revenue you think will be profit, what portion will be used to pay for merchandise, and what portion will be needed for operating expenses.

- a. To begin, mark off and label a slice of pie to represent the amount of profit you would expect to earn.
- b. Then mark off and label a slice to represent payment for the merchandise sold.
- c. The slice left represents the amount set aside for operating expenses. Do you think you have set aside enough for all the expenses associated with operating a business?
- d. Make any adjustments in the three portions of the pie that you think are necessary.



