

Common Sense Economics



Small enterprises

Total revenue
Opportunity costs

Total costs
Fixed and variable costs
Profits

Think about the small businesses in your district.

They help meet your needs and wants as well as those of the voters. But, there is more to the story. They can keep their doors open or they can close. To keep their doors open, they must realize a profit.

How do businesses determine profit? They take total receipts or revenue and subtract total costs.

Total revenue is determined by how many units are sold and the price per unit. If your local event center sells 100 dinner plates at \$50 each. Total revenue is \$5,000. Revenues are somewhat visible to the general population.

Total costs are not so easily seen nor are they easy to calculate. They are broken up into two parts – fixed and variable costs. Let's consider both.

Fixed costs are those costs that businesses must pay regardless of how many people do business or walk through the "doors" of the business. Consider a lease for a building or a yearly rental agreement to illustrate. Stay in business, go out of business, sell 0 units or one million, fixed costs are the same.

Variable costs vary with actual business traffic. In a restaurant, examples include the amount of time employees actually work, costs associated with the daily food purchases, and so forth.

Help people understand that profits keep businesses open, and "there is no such thing as a free lunch." Businesses must consider costs in order to meet your and your constituents needs and wants. Help busy stay in business through purposeful purchases.



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