At the beginning of the year, an audio engineer quit his job and gave up a salary of 175,000 per year in order to start his own business, Sound devices, inc. The new company builds, installs and maintain custom audio equiptment for businesses that require high-quality audio systems. A partial income statement for Sound devices, inc, is shown below:

Revenue

Revenue from sales of products and services 970,000

Operating Cost and expenses

Cost of products and services sold 355,000

Selling expenses 155,000

Administrative expenses 45,000

Total Operating cost and expenses 555,000

Income from operations 415,000

Interest expenses (bank loans) 45,000

Legal expenses to start business 28,000

Income Taxes 165,000

Net Income 177,000

To get started, the owner of sound devices spent 100,000 of his personal savings to pay for some of the capital equiptment used in the business. In 2007, the owner of Sound Devices could have earned a 15% return by investing in stocks of other new businesses with risk levels similar to the risk level of Sound Devices.

1. What are the total explicit, total implicit and total economic costs in 2007?
2. What is the accounting profit in 2007?
3. What is the economic profit in 2007?
4. Given your answer in part c , evaluate the owner’s decision to leave his job to start sound devices