1. ABC Corp. owns a piece of land and building a few miles from its headquarters. The land originally cost ABC $500,000 to purchase. ABC is considering using the facility for a new training program. It could also rent a building about the same distance from its headquarters for $20,000 a year. A developer has offered ABC $2.5 million for its property. What factors should ABC consider when deciding whether or not to use its own facility or to sell it and rent the other building? What would you recommend?
2. You have worked as a real estate agent for 10 years and are earning about $100,000 per year with your current agency. You prepared the following information to use in evaluating the financial feasibility of starting your own agency:

Revenues generated during the first year of operations: $1.5 million
Salaries and other labor costs paid to employees during the first year of operations: $1 million
Operating expenses (e.g., rent, communications: $150,000
Equipment purchases: $100,000 with a 5 year straight line depreciation

You need $100,000 in equity, which you can withdraw from your bank account that is currently paying 2% per year in interest, and a $400,000 loan with a 15% interest rate.

1. What is your expected pretax accounting profit from your proposed agency?
2. What is your expected pretax economic profit from your proposed agency?
3. Identify the explicit versus implicit costs.
4. Complete the following table using your understanding of the relationship among the various costs.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Output** | **TC** | **FC** | **VC** | **ATC** | **AFC** | **AVC** | **MC** |
| 0 |  | 125 | 0 |  |  |  |  |
| 10 |  |  |  |  |  | 5.0 |  |
| 20 |  |  |  |  |  |  | 3.5 |
| 30 | 235 |  |  |  |  |  |  |
| 40 |  |  | 130 |  |  |  |  |
| 50 |  |  |  | 5.5 |  |  |  |
| 60 |  |  |  |  |  | 3.0 |  |
| 70 | 350 |  |  |  |  |  |  |
| 80 |  |  |  |  |  |  | 7.0 |