**4. Capitalism, Profits, and Justice**

Name and date submitted (3pts):

Instructions: Create space and enter your answers in the Word document below, and turn it in by the due date.

(5 questions, 100 possible points).

1. Factors of Production:

You have developed a new & improved personal communication device which you will market as the “MePhone”. You estimate that you can sell 1 million units the first year, and you have begun the process of setting up a factory in Nevada, USA.

With respect to your Nevada factory project, list specific examples of each of the 3 Factors of Production you will need to consider (there are easily 2 or 3 or 4 examples from each category). In other words, list 2 or 3 specific examples of Land, Labor, and Capital which you will need to acquire in order to build and operate your new factory. Ask your parents for ideas, and/or use a search term like “what do I need to build and operate a factory”?

1. Land
2. Labor
3. Capital
4. Calculating profit:

During the first year of operation, your ‘MePhone’ business has *sales revenue* of $100,000,000 (100 million dollars), *costs of goods sold* of $70,000,000, and *indirect costs* (overhead) of $20,000,000. According to the simplified model we discussed in class:

1. What was your Gross Profit for the year?
2. What was your Net Profit before taxes?
3. What was your Net Profit after taxes (assume 30% tax)?
4. What will you do with your Net Profit after taxes? Reinvest it in the business?.... or pay it to your shareholders (the people who gave you the money to build your factory)?

Example Income Statement:

Sales Revenue $300,000

Less: Cost of Goods Sold -250,000

Gross Profit 50,000

Less: Indirect costs -20,000

Net Profit before taxes 30,000

Less: Income tax (30%) -9,000

Net Profit after taxes 21,000

1. Is “profit” an evil byproduct of free societies? Consider this statement: *“A business should be run for people and not for profit.”*
2. If a business is profitable, are people helped or harmed? Explain.
3. Are people helped more if a business is unprofitable? Why or why not?
4. “Distributive Justice”: Who gets the stuff, dude?

In each case below (a-h), give answers to the following 2 questions. Each of a-g requires an answer to the following 2 questions:

1) How would this motivate (or not motivate) students?

2) How would students “adapt” their behavior to maximize their grade?

Think carefully; the answers might be more subtle than you think….

Distributing class grades by:

1. Fairness: Everyone in class will receive an ‘A’ grade. Everyone is a winner.
2. Chance: There will be a lottery to determine who gets what grade.
3. Revenge: Your grade will be determined by the person who sits 2 chairs to your left.
4. Guilt: The current ‘oppressed class’ will receive the best grades.
5. Politics: Those who are loyal members of the dominant political party will get the best grades. Everyone else will be graded on a curve.
6. Dictator: Students will elect a “Commissar”. He/she will then distribute the grades in any manner which suites him/her.
7. Marxism or Communism: No one will get “grades”. Grades and education are evil Western ideas and are a form of “private property”, and thus do not advance the cause of the glorious revolution. Anyone caught studying books not approved by the Commissar will face stiff consequences.
8. Merit: Your grade will be determined by how well you perform in class, as measured by homework and test scores.
9. Payback Period

Use the idea of ‘payback period’ to evaluate the following investments. Which would be the better investment, and why?

1. Investing $30,000 in a solar power system which saves you exactly $3,000 each year in electricity costs, or…
2. Investing $40,000 in a hybrid car which saves you $3,500 per year in fuel costs.

Payback period example:

Initial investment in the “item” $10,000

Benefits to be gained from the item $1,000 per year

Payback period 10,000 / 1,000 = 10 years

Therefore, payback period is estimated to be 10 years for this investment (it ‘pays for itself’ in 10 years, in other words).