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B.A. Part-I  
Paper- Paper-1  
Topic : **Profits (Basic introduction)**

### Profits

*In ordinary parlance, profit is the surplus of income over expenses of production according to a businessman. It is the amount left with him after he has made payments for all factor services used by him in the process of production. But he may not have been careful in calculating all such expenses of production in the economic sense. Therefore, economists regard business mans profit as **gross profit** as distinct from PO are net profit because it includes the following constituents.*

1. *Ring on land*
2. *Interest on capital*
3. *Wages of Management*
4. *Depreciation charges*
5. *Insurance charges*

#### **Net Profit :**

*Net, true, economic or pure profit is the residue left to the entrepreneur after deducting all the items enumerated above from gross profit. Net profit, however, includes the following elements within it.*

1. *Reward for uncertainty bearing*
2. *Reward for coordination*
3. *Reward of ability*
4. *Revolt of innovation*
5. *Monopoly gains*
6. *Windfall*

*We can say that, an economist's profit is quite distinct from a businessman's profit. The former is concerned with net profit which is arrived at by deducting Salam the businessman's gross profit, the remuneration for the latter's own land, labour and capital.*

#### **Some important points:**

- **Prof. J. B Clark** propounded his dynamic theory of profit in 1990. According to him profits are a dynamic surplus.



- *The Rent theory of profit was propounded by the American economist, **F. A Walker**.*
- *The risk theory of profit is associated with **H.B Hawley** who regards risk taking as the main function of the entrepreneur. Profit is the decidual income which the entrepreneur receives because he assumes risks.*
- ***Prof. Frank H. Knight** , regards profit as the reward of bearing non insurable uncertainties.*
- *The innovation theory of profit is associated with **Joseph A. Schumpeter**, according to him the principal function of the entrepreneur is to make innovations and profits are a reward of performing this important function.*

