

Profits & Losses: The Hidden Signal | Worksheet



Matching

Match the definition in Column A with the term in Column B.

Column A

- _____ Costs exceed revenue, signaling inefficiency.
- _____ Distributing scarce resources to productive uses.
- _____ Government regulating or influencing activity.
- _____ Reward for success; revenue minus costs.
- _____ Information showing resource use efficiency.
- _____ Motivation created by rewards.

Column B

- a. Profit
- b. Loss
- c. Incentive
- d. Signal
- e. Resource Allocation
- f. Government Intervention

Multiple Choice

1. **A clothing store loses \$5,000 a month because customers prefer online shopping. What does this loss signal to the store?**
 - a. The government should provide a bailout for the business.
 - b. Customers value the store's products more than online options.
 - c. The store should lower costs or adapt its business model.
 - d. The business should ignore the losses and wait for profits
2. **If a government bails out failing businesses to prevent losses, what is the most likely result?**
 - a. Businesses lose the incentive to improve or adapt.
 - b. Businesses become more efficient to repay the government.
 - c. Resources are allocated more effectively across the economy.
 - d. Competition increases, driving down prices for consumers.
3. **In a free market, how do profits and losses influence resource allocation?**
 - a. Profits and losses have no effect on resource use.
 - b. They guide resources toward productive uses and away from waste.
 - c. They ensure every business succeeds regardless of efficiency.
 - d. They prevent competition by limiting new businesses from entering markets.
4. **A small coffee shop in town earns high profits, which attracts two new coffee shops to open nearby. What is the most likely outcome of this competition?**
 - a. Prices will decrease, and customers will have more options.
 - b. The original coffee shop will be forced to close.
 - c. Resources will shift to less productive businesses.
 - d. All three coffee shops will equally share profits.

Application

Imagine your lemonade stand is losing money. You spend \$40 on supplies each day, but you're only earning \$30 in revenue from selling lemonade.

Based on this information, answer the following questions in complete sentences.



1. What does this loss signal about how you're running your business?

2. To turn things around, what changes could you make to:

a. Increase your revenue?

b. Lower your costs?

c. Use your time and resources more efficiently?

3. If you can't turn a profit, what else could you do with your time and money to use your resources more productively?

Profits & Losses: The Hidden Signal | Answer Key

Matching

Match the definition in Column A with the term in Column B.

Column A

- b. Costs exceed revenue, signaling inefficiency.
- e. Distributing scarce resources to productive uses.
- f. Government regulating or influencing activity.
- a. Reward for success; revenue minus costs.
- d. Information showing resource use efficiency.
- c. Motivation created by rewards.

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Application

Imagine your lemonade stand is losing money. You spend \$40 on supplies each day, but you're only earning \$30 in revenue from selling lemonade. **The following answers are examples. When assessing student responses, evaluate the way the student identifies the loss as a signal of inefficiency and then proposes realistic strategies to increase revenue or lower costs. This will**

demonstrate an understanding of resource allocation and opportunity cost when suggesting alternative uses of time and money.

1. What does this loss signal about how you're running your business?

Answer: The loss signals that resources are being misused or wasted. It means the current business model is inefficient, and changes are needed to improve profitability.

2. To turn things around, what changes could you make to:

a. Increase your revenue?

- Sell more lemonade by improving marketing, choosing a busier location, or extending business hours.
- Increase the price of lemonade if customers are willing to pay more.

b. Lower your costs?

- Find cheaper suppliers for lemons, sugar, or cups.
- Reduce waste by only buying the amount of supplies you need for the day.

c. Use your time and resources more efficiently?

- Focus on selling lemonade during peak demand times, such as hot afternoons or weekends.
- Spend less time or money on activities that don't bring in more revenue, such as overstaffing or excessive advertising.

3. If you can't turn a profit, what else could you do with your time and money to use your resources more productively?

Answer: Close the lemonade stand and use the resources for a more productive activity, such as starting a different business or finding part-time work. The time and money could also be allocated to personal development, like learning a new skill or saving for future goals.