Production, Entry, and Exit

Student's Name

Institutional Affiliation

History

Round	1	2	3	4	5
Drive Today?	Yes	Yes	No	Yes	Yes
Drivers	7	7	4	5	7
Revenue per Hour	$14	$14	$21	$18	$14
YourHours	7	7	N/A	9	8
Profit	-$15	-$15	0	$17	-$16

Playing the simulation and testing my ability to predict events accurately and earn more money as a driver was entertaining. The daily set fee and the quantity of other drivers on that specific day were the primary factors in my decision to drive. Driving on a day when the hourly wage is expected to be low would not be worthwhile because there would be an excessive number of drivers around the road. Put another way, the predetermined pricing would result in a loss of revenue if one had more than five drivers.

Perhaps the most crucial factor for a business owner to think about when deciding whether to enter or exit an industry is how competitive it is. The simulation shows how the number of rivals offering the same product or good as you could have a significant influence on your profits—the more vendors there are, the less money you could make. Furthermore, the number of prospective clients is also crucial. If you have no one to sell to, you cannot profit. As a result, the ratio of purchasers to sellers in each given market is essential since it determines the general dynamics of supply and demand in that specific market (Fernando, 2022). If the marginal cost is less than the typical price at that quantity and matches the product's value, it makes sense to enter the market. Conversely, my company would withdraw from the market if it believes that producing a product will result in a loss of revenue relative to its costs. Put another way, if the product's price is less than the median overall expense of manufacturing, the business is losing money.

Marginal cost determines the ideal output level for the most significant profit. (Mankiw, 2021). The product's marginal cost of production is zero at this price. If I were running a business, I would look into sales patterns to figure out the quantity that would have to be produced in order to pay for overhead. In order to do this, I have to determine the number of employees I'll need, figure out how much room and machinery I'll need to replicate a particular output, and consider a number of approaches to streamline production. In order for my business to be profitable, these systems must operate flawlessly.

Fixed expenses negatively impact short-term earnings since a more significant number of goods must be sold to break even. After fixed expenses are deducted, the profit on each extra unit sold increases. In the long run, fixed costs are more advantageous in production decisions because they frequently have a smaller profit margin at higher production volumes. Early on in its existence, a business might, for example, spend money on inexpensive manufacturing machinery in an effort to make enough money (profits) to pay its bills until it can establish itself. Once they have sufficient savings, they will purchase newer, more expensive machinery, which will initially cost more but, because of its productivity and dependability, save them money over time. Long-term profits will increase as a result of this method's improved production efficiency, which more than offsets the higher initial cost of the more expensive equipment. However, short-term earnings may decrease.

References

Fernando. (2022). *Opportunity Cost: Definition, Formula, and Examples*. Investopedia. https://www.investopedia.com/terms/o/opportunitycost.asp