

	Importance of profit in an economy
Efficiency	Profit encourages firms to cut costs and increase efficiency.
Innovation	Profit encourages entrepreneurs to create new products which may be profitable.
Fund investment	High profit gives firms the capacity to invest in research and development.
Incentives	Higher profit encourages resources to flow to profitable areas.
Wages	Higher profit enables a rise in wages for workers.

Every business operates with an aim to earn more than what has been invested and profit is the excess of revenue over cost. Profit plays an important role in business

(i) It is a source of income for business persons.

(ii) It can be a source of finance for meeting expansion requirements of business.

(iii) It indicates the efficient working of business.

(iv) It can be taken as society's approval of the utility of business.

(v) It builds up the reputation of a business enterprise.