Webnote 1593:   Syllabus: item 50

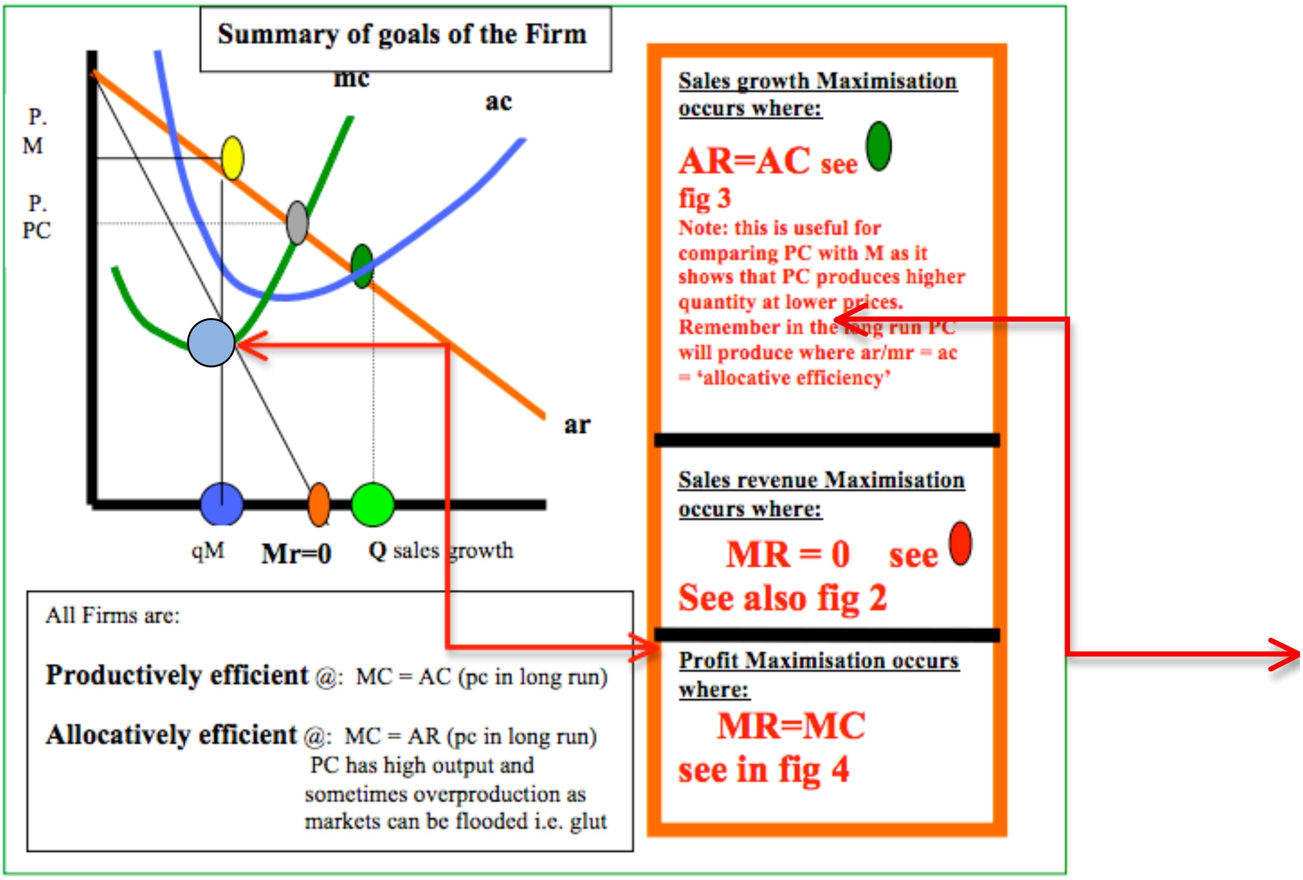
2.3 HL Syllabus objectives of firms: Max Profits-Max Growth-Max Sales

1. **MR=0   Sales revenue maximisation (figure 1 + figure 2)**
2. **AR=AC Sales growth maximisation (figure 1 + figure 3)**
3. **MR=MC Profit Maximisation (can also be shown by TR-TC) (figure 1+ figure 4)**

Note: 1-3 are output choices for firms. Firms decide on what quantity best fits their strategy

4. **Environmental concerns: or Corporate Social Responsibility (sustainability/public image/advertising/ google SHELL and environment or Henkel promoting public image or Fair Trade scheme or GAP or Man United**
5. **See also satisficing. Explained below and should be well defined. See Blink page 99**

Figure 1



Note (1): Allocative Efficiency:

The grey point represents allocative efficiency MC=AR. See webnote 150 page 12 / slide 12. Note also that this is where the perfectly competitive firm will produce (mr = mc) as for the PC firm MR=AR. (Price taker concept)

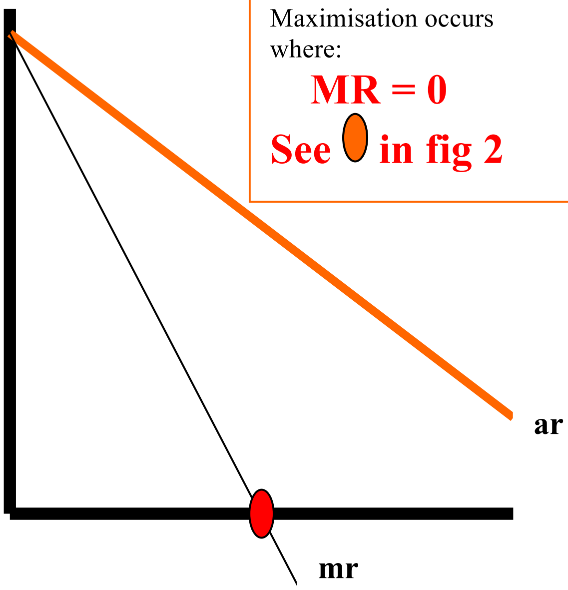
PC Long run equilibrium = At this point MC=MR=AR=AC (note: Fig 1 represents all firms in a PC industry and therefore the AR line is drawn as a negatively sloped line. When drawing a single firm in PC the AR is drawn as a horizontal line i.e. price taker). AC will be at its lowest point where AR =AC

Unless economies and scale in imperfect models are dominant then PC results in a better outcome for consumers and society.

Note (2): Satisficing

Satisficing is another strategy that firms attempt to meet the goals of different stakeholders e.g. consumers, unions, shareholders etc

fig 2 Sales revenue maximisation



Sales revenue Maximisation occurs where:

MR = 0

See in fig 2

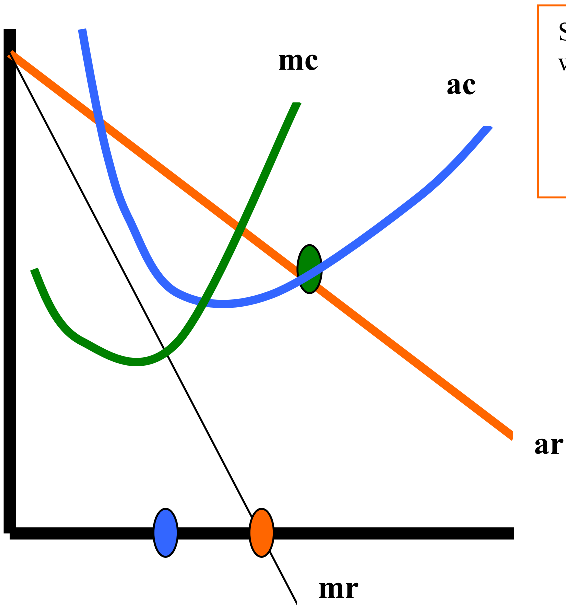
Why?

1. **consumers value companies with a 'bigger image'**
2. **banks more willing to do business with bigger firms**
3. **salaries/bonuses may be linked to sales**

note that output is greater than with profit maximisation

---

fig 3 Sales growth maximisation



Sales growth Maximisation occurs where:

AR=AC see

Why?

1. large firms less likely for a takeover
2. salary may be linked to size of firm

note that the output is > than it is in profit max (mr=mc) and sales revenue (mr =0)

IB Exams: M16/HP1

Explain why firms may not always pursue the goal of profit maximization. [10 marks]

(see answer on page 4)

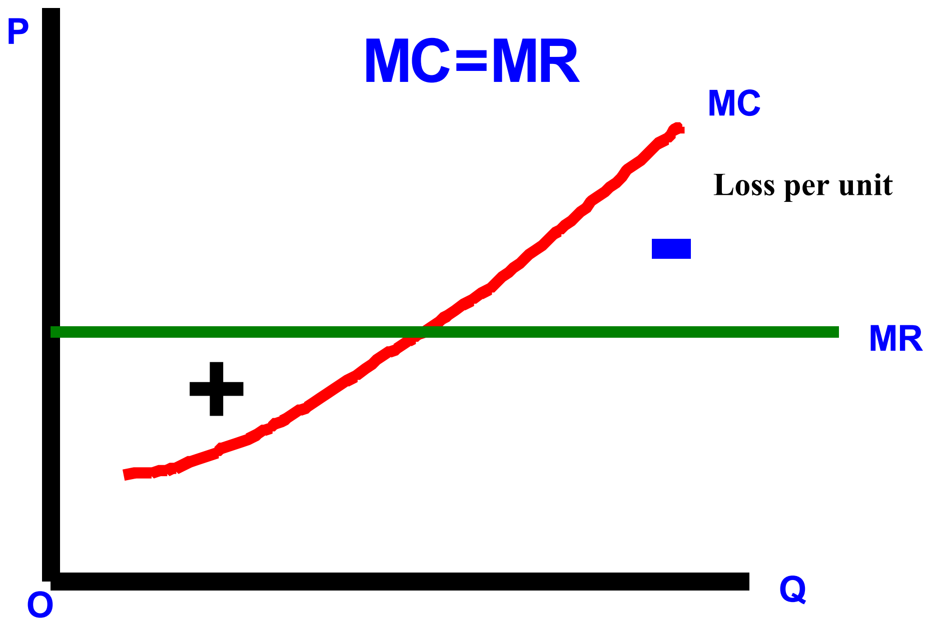
M16/3/ECONO/HP1/ENG/TZ1/XX

fig 4 Profit Maximisation

Profit Maximisation occurs where:

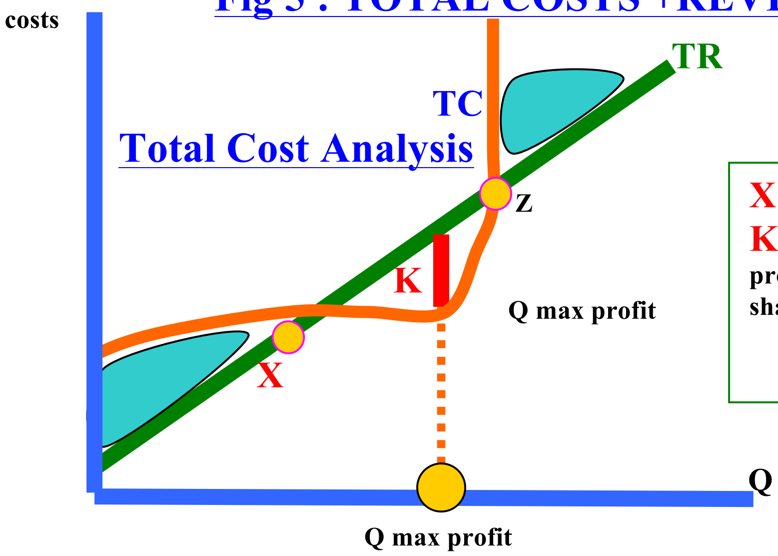
MR=MC see in fig 2

E: Point of Maximum Profit for a Firm



Or Total cost/revenue Analysis to determine maximum profit

Fig 5 : TOTAL COSTS +REVENUES



X and **Z** = break even point
K = max profit quantity of production
shaded area = economic loss

IB Exams: M16/HP1

Explain why firms may not always pursue the goal of profit maximization. [10 marks]

M16/3/ECONO/HP1/ENG/TZ1/XX

(a) **Explain why firms may not always pursue the goal of profit maximization.** [10]

Answers may include:

· **definition** of profit maximization

· **diagrams** to show profit maximization and alternative goals such as revenue maximization, growth maximization, satisficing and corporate social responsibility

· explanation of profit maximization and the alternative goals of firms in the short and long run

· **examples** of alternative goals of firms.