

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

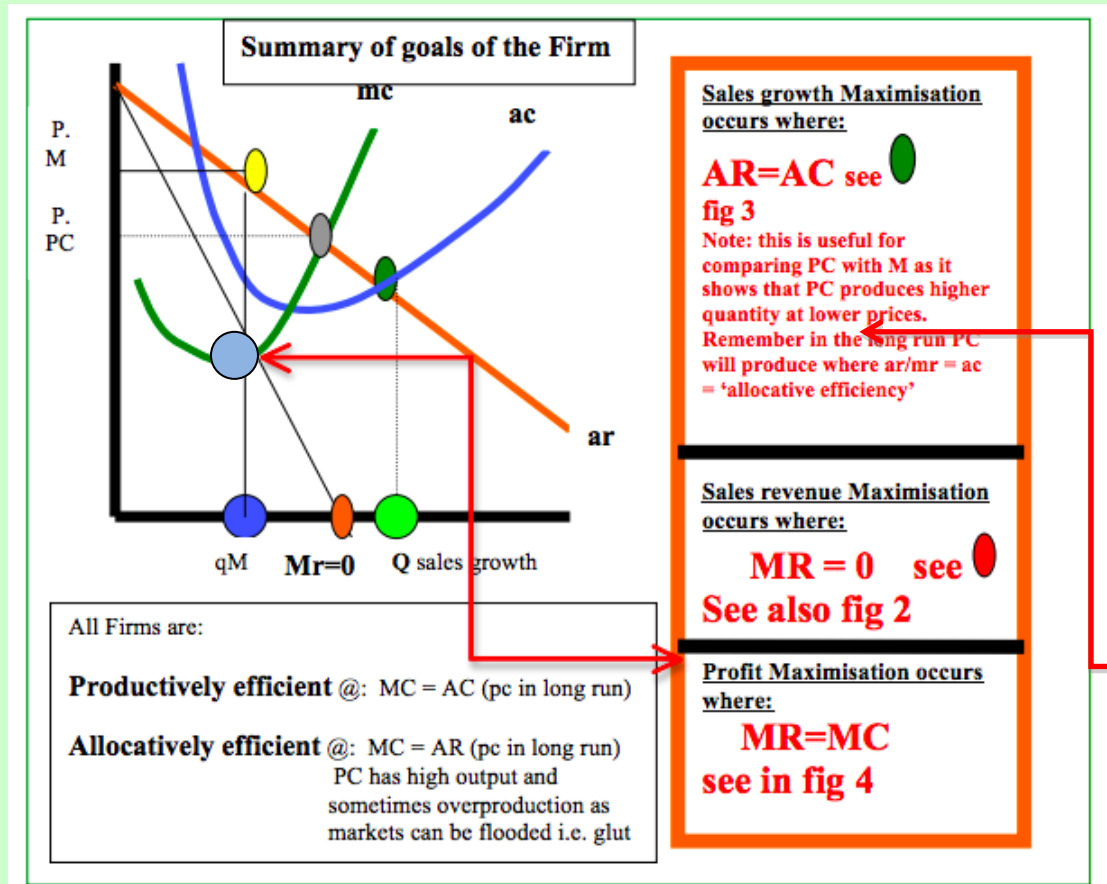
1. **MR=0** Sales revenue maximisation (figure 1 + figure 2)
2. **AR=AC** Sales growth maximisation (figure 1 + figure 3)
3. **MR=MC** Profit Maximisation (can also be shown by TR-TC) (figure 1+ figure 4)

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)

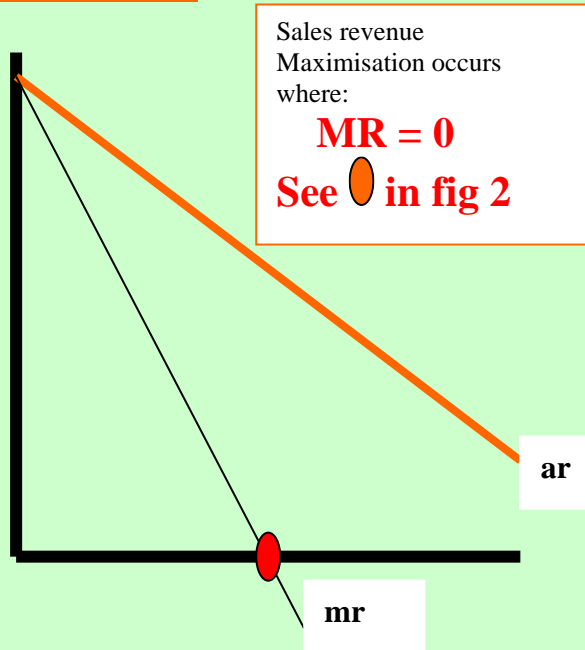
PC Long run equilibrium = At this point $MC=MR=AR=AC$ (note: Fig 1 represents all firms in a PC industry and therefore the AR line is drawn as a negatively sloped line. When drawing a single firm in PC the AR is drawn as a horizontal line i.e. price taker). AC will be at its lowest point where $AR =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

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

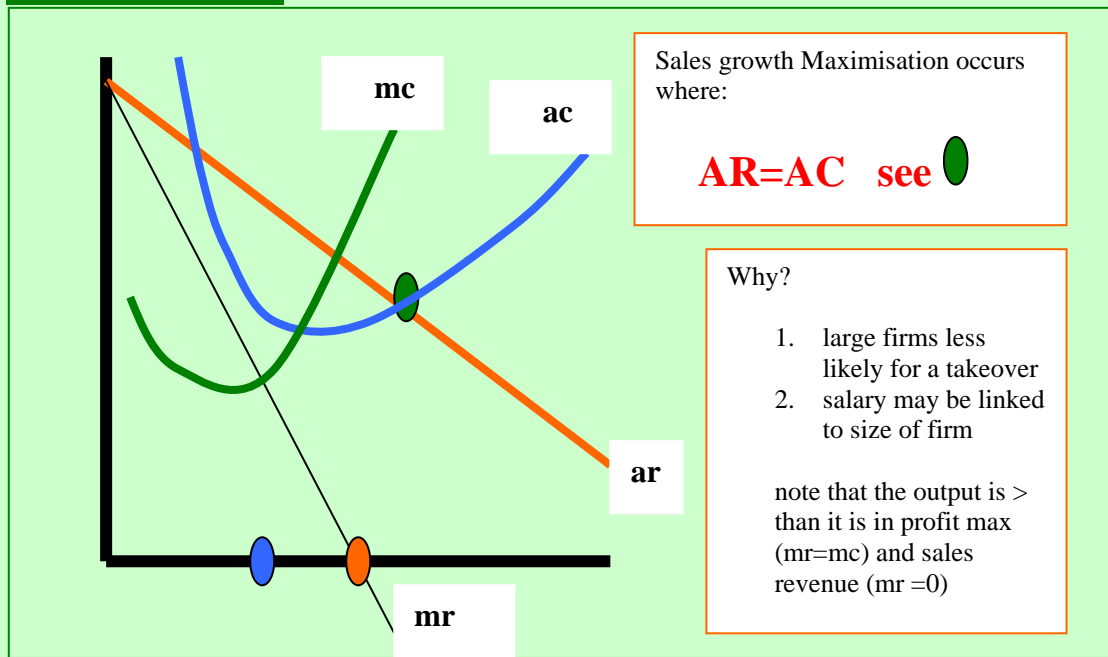


Why?

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



IB Exams: M16/HP1

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

(see answer on page 4)

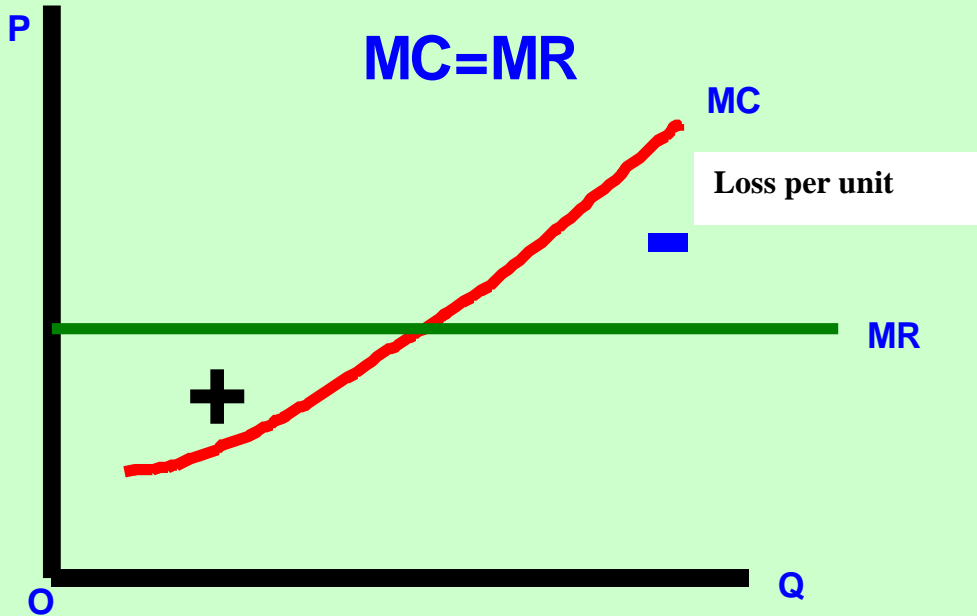
M16/3/ECONO/HP1/ENG/TZ1/XX

fig 4 Profit Maximisation

Profit Maximisation occurs where:

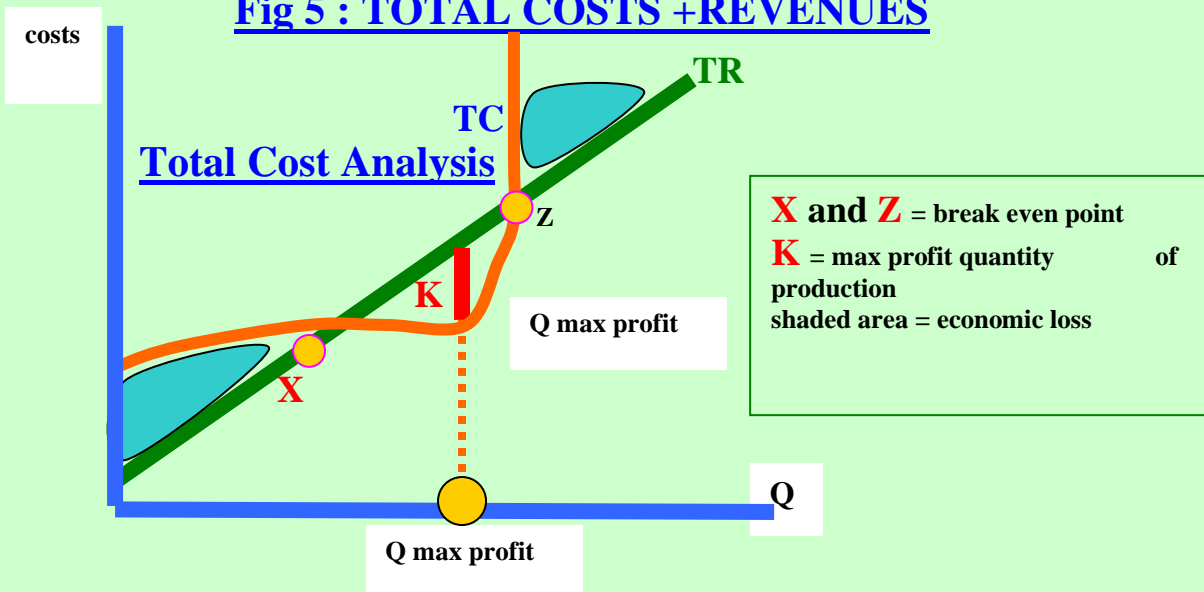
$MR=MC$ see 0 in fig 2

E: Point of Maximum Profit for a Firm



Or Total cost/revenue Analysis to determine maximum profit

Fig 5 : TOTAL COSTS +REVENUES



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.