***ED 15***

**Best Uses:**

* Key diagrams below show objectives of firms and that profit maximisation is not the only objective that firms pursue. Note that the diagrammatic focus is on profit maximisation however as it is from MC=MR that we read the diagrams for productive efficiency + allocative efficiency.

## 1.5 HL Syllabus objectives of firms:Max Profits-Max Growth-Max Sales

## Figure1: MR=0 Sales revenue maximisation

## Figure 2: AR=AC Sales growth maximisation

## figure 3: MR=MC Profit Maximisation (can also be shown by TR-TC)

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

## 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

Note:

For **PC**:

In diagram above short run and in the long run PC is better that imperfect competition.

PC Short run equilibrium=

PC Long run equilibrium = At this point MC=MR=AR=AC

Unless: economies and scale and high price competition in imperfect models results in a better outcome for consumers and society.

**ar**

**Mr=0**

Sales growth Maximisation occurs where:

**AR=AC see  fig 2**

**Note: this is useful for comparing PC with M as it shows that PC produces higher quantity at lower prices. Remember in the long run PC will produce where ar/mr = ac**

**= ‘allocative efficiency’**

Sales revenue Maximisation occurs where:

**MR = 0 see **

**See fig 1**

Profit Maximisation occurs where:

**MR=MC see  in fig 3**

**ac**

**mc**

**Summary of goals of the Firm**

**Q** sales growth

P.

PC

P.

M

qM

All Firms are:

**Productively efficient** @: MC = AC (pc in long run)

**Allocatively efficient** @: MC = AR (pc in long run)

PC has high output and sometimes overproduction as markets can be flooded i.e. glut

## fig 1: Goal = 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

**ar**

**mr**

Sales revenue Maximisation occurs where:

**MR = 0**

**See  in fig 2**

## fig 2: Goal = Sales growth

***ED 15***

## maximisation

Why?

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

note that the output is > in profit max and sales revenue

**ar**

**mr**

Sales growth Maximisation occurs where:

**AR=AC see **

**ac**

**mc**

**IB Exams: M08/3/ECONO/HP2/ENG/TZ0/XX**

**3. Using at least one diagram, explain the difference between profit maximization and sales revenue maximization as goals of the firm.**

Profit Maximisation occurs where:

**MR=MC see  in fig 3**

**fig 3: Goal = Profit**



**Maximisation**

**Loss per unit**

**Or Total cost/revenue Analysis to determine maximum profit**

**Z**

**TR**

**TC**

**Fig 1:TOTAL COSTS +REVENUES**

**costs**

**Total Cost Analysis**

**X and Z = break even point**

**K = max profit quantity of production**

**shaded area = economic loss**

**K**

**Q max profit**

**X**

**Q**

**Q max profit**