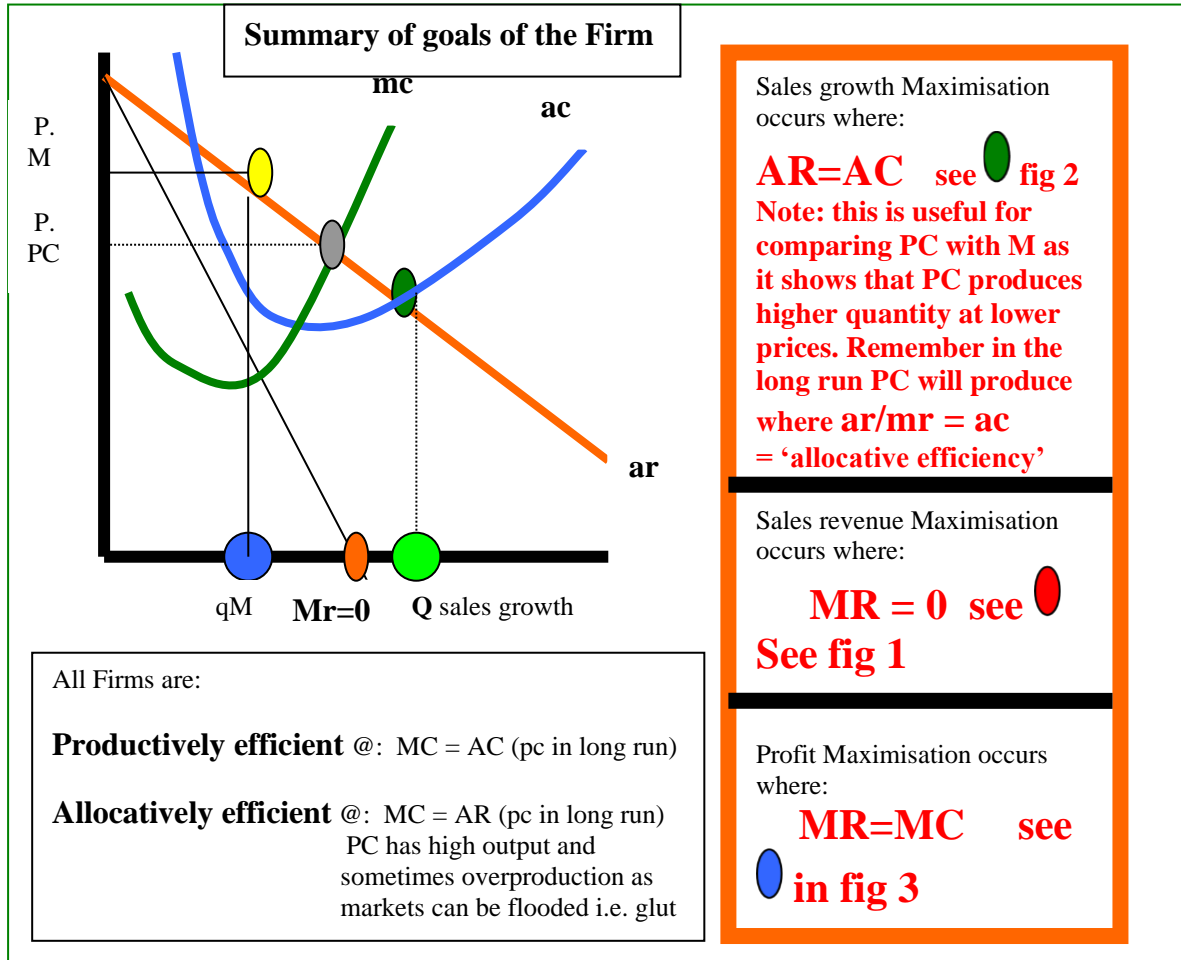


Best Uses:

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

1. **Figure 1: $MR=0$ Sales revenue maximisation**
 2. **Figure 2: $AR=AC$ Sales growth maximisation**
 3. **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
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)



Note:

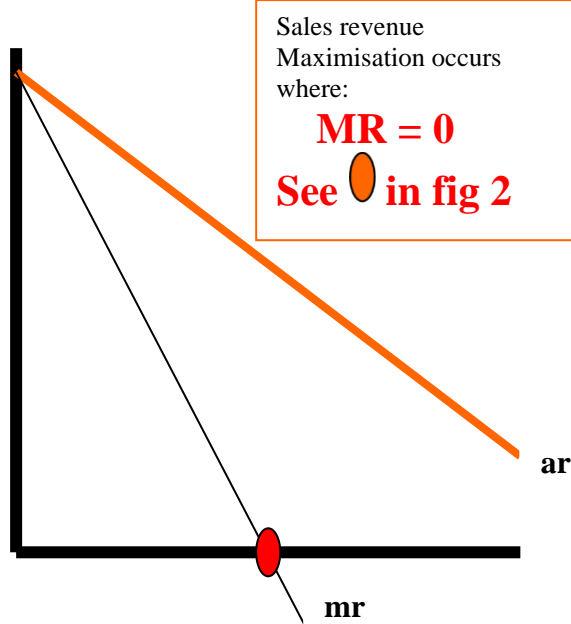
For **PC**:

In diagram above short run and in the long run PC is better than 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.

fig 1: Goal = Sales revenue maximisation

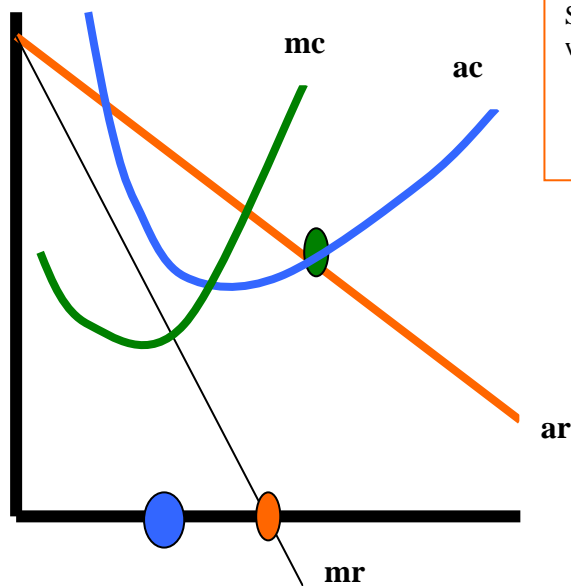


Why?

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

fig 2: Goal = Sales growth 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

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

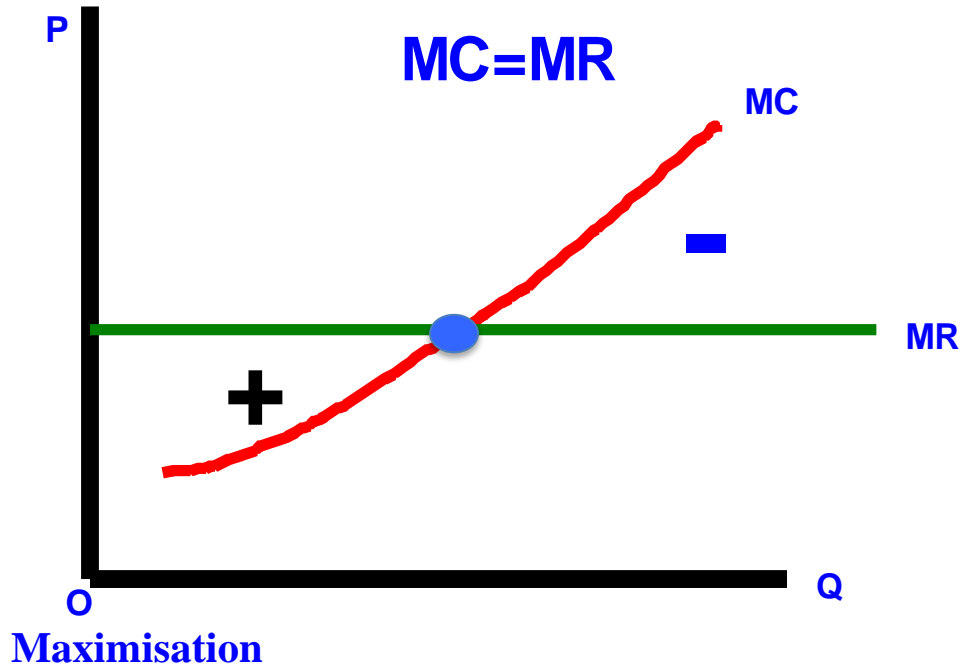
3. Using at least one diagram, explain the difference between profit maximization and sales revenue maximization as goals of the firm.

Profit Maximisation occurs where:

$MR=MC$ see **●** in fig 3

fig 3: Goal = Profit

E: Point of Maximum Profit for a Firm



Or Total cost/revenue Analysis to determine maximum profit

Loss per unit

Fig 1: TOTAL COSTS + REVENUES

