CHAPTER 3 : Business objectives

Key terms

1. Business objective : a result that a firm aims to achieve
2. Cost-plus pricing : the technique adopted by firms of fixing a price for their products by adding a fixed percentage profit margin to the long-run average cost of production
3. Profit maximisation : occurs when the difference between total revenue and total cost if greatest.
4. Profit satisficing : making sufficient profit to satisfy the demands of owners, such as shareholders
5. Revenue maximisation : occurs when total revenue is highest and when marginal revenue equals zero
6. Sales volume maximisation : occurs when the volume of sales is greatest, when the objective of a firm, this is usually subject to a profit satisficing constraint.

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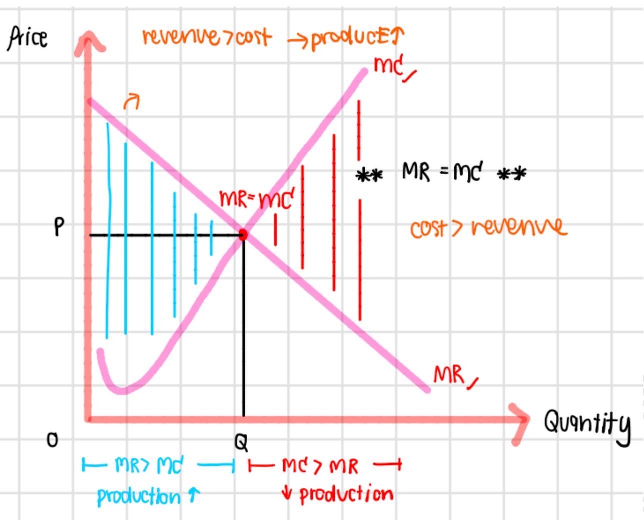
1. **Profit maximisation** : maximise different between firm revenue and total cost

Profit maximisation : MR=MC

Diagram



Advantages

- Higher salary for manager and worker
- Higher dividend for shareholders
- Encourage firms to be more efficient and to keep looking cutting cost
- High profit enable more resources to invest in future projects

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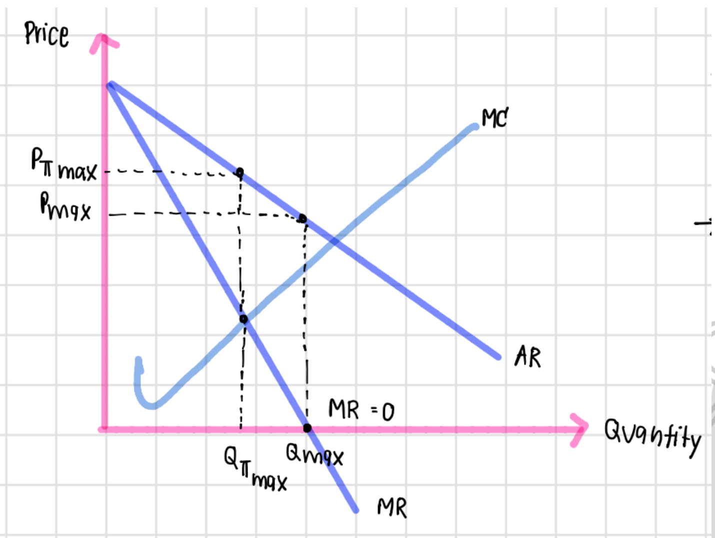
2. **<u>Sale revenue maximisation</u>** : maximise income (Price per unit x Quantity)

Sale revenue maximisation : MR=0

<u>Diagram</u>



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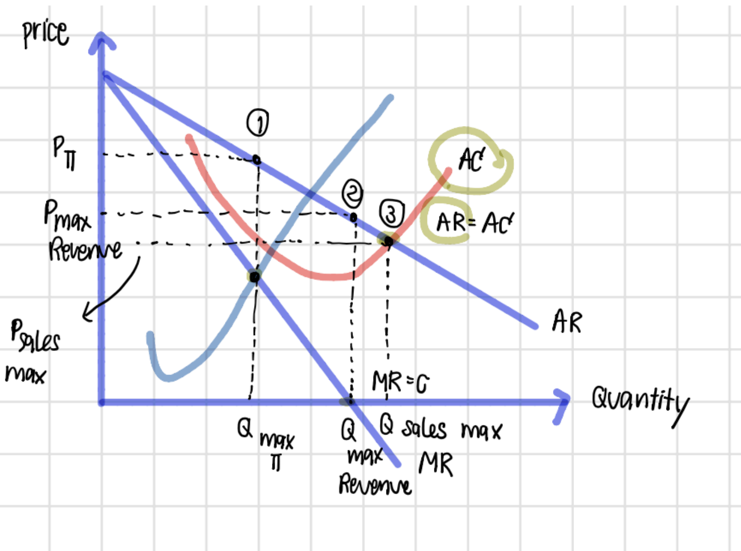
3. Sale output maximisation

: Maximise volume of sales, firms would increase output up to the break-even output where total revenue just cover the total cost (Profit = 0)

Sales maximisation : AR=AC

Diagram



4. Satisficing profit

: When firm is determined to male reasonable level of profit, sufficient to satisfy shareholder but also high enough to keep other stakeholder happy

5. Survival

: Some firms might aim to simply survive in the short run

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