OBJECTIVE OF FIRM

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DEFINITION

- **Firm**:- Firm is a business organisation that buys or hires factors of production in order to produce goods and services that can be sold at a profit.
- **Objective of firm**:-The standard economic assumption underlying the analysis of firms is profit maximization. Firms are assumed to make decisions that will increase profit. Generally speaking, profit maximization is the process of obtaining the highest possible level of economic profit through the production and sales of goods and services. For a more thorough discussion of this topic, see the profit maximization entry. Real world firms might pursue other objectives including: (1) sales maximization, (2) pursuit of personal welfare, and (3) pursuit of social welfare. In some cases, these other objectives help a firm pursue profit maximization. In other cases, they prevent a firm from maximizing profit.

OBJECTIVE OF FIRM

Sales maximisation

Profit maximisation

Utility maximisation

Welfare maximisation

Growth maximisation

Objectives of firm

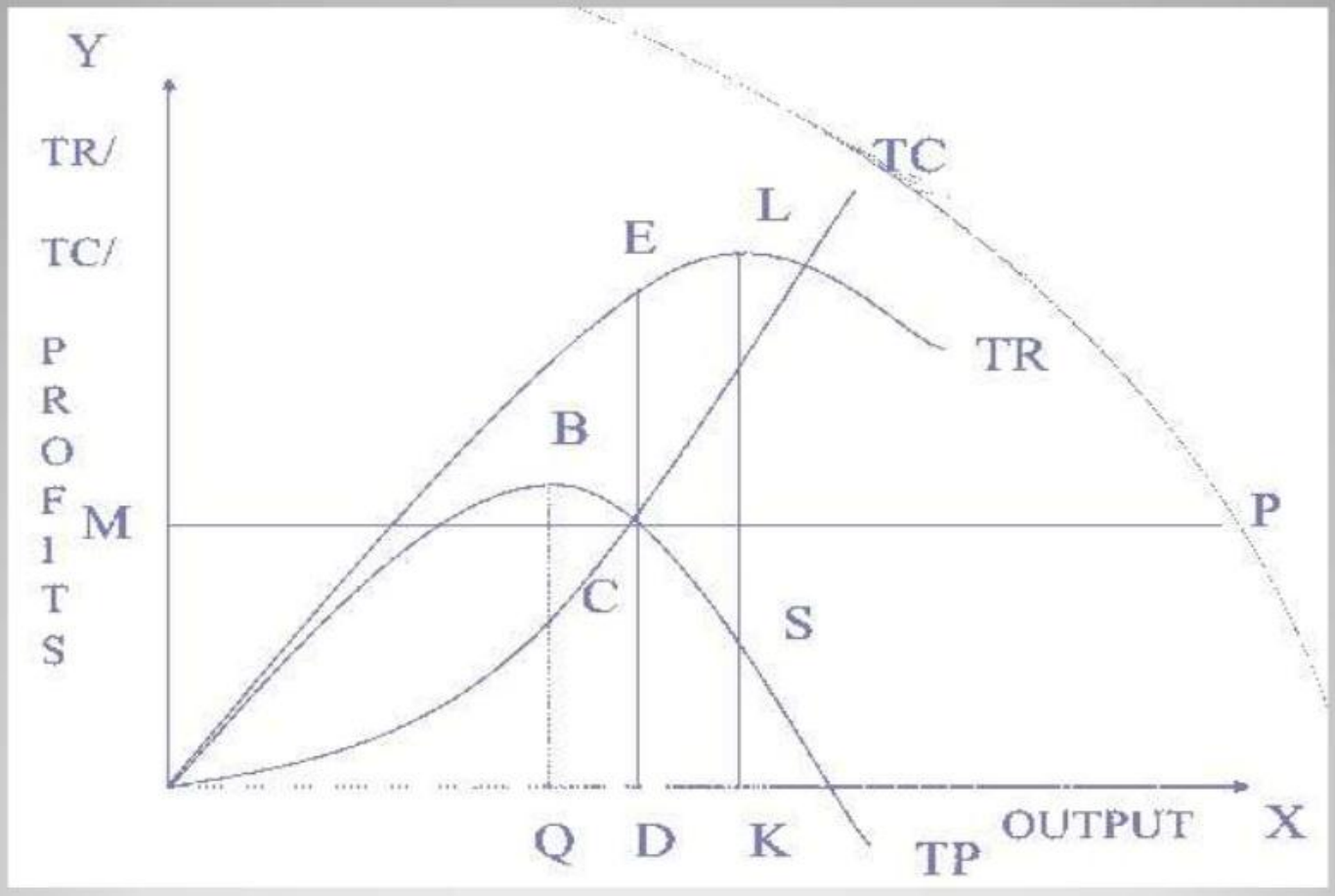
SALES MAXIMISTION

According to prof. baumol the ultimate objective of firm is sales maximisation rather than the profit maximisation. He thinks that when a firm considers sales maximisation as a priority objective, it does not neglect the objective of profit maximisation. The objective of sales maximisation with minimum profit can be easily understood with the Fig. Where:

TC- Total Cost.

TR- Total Revenue.

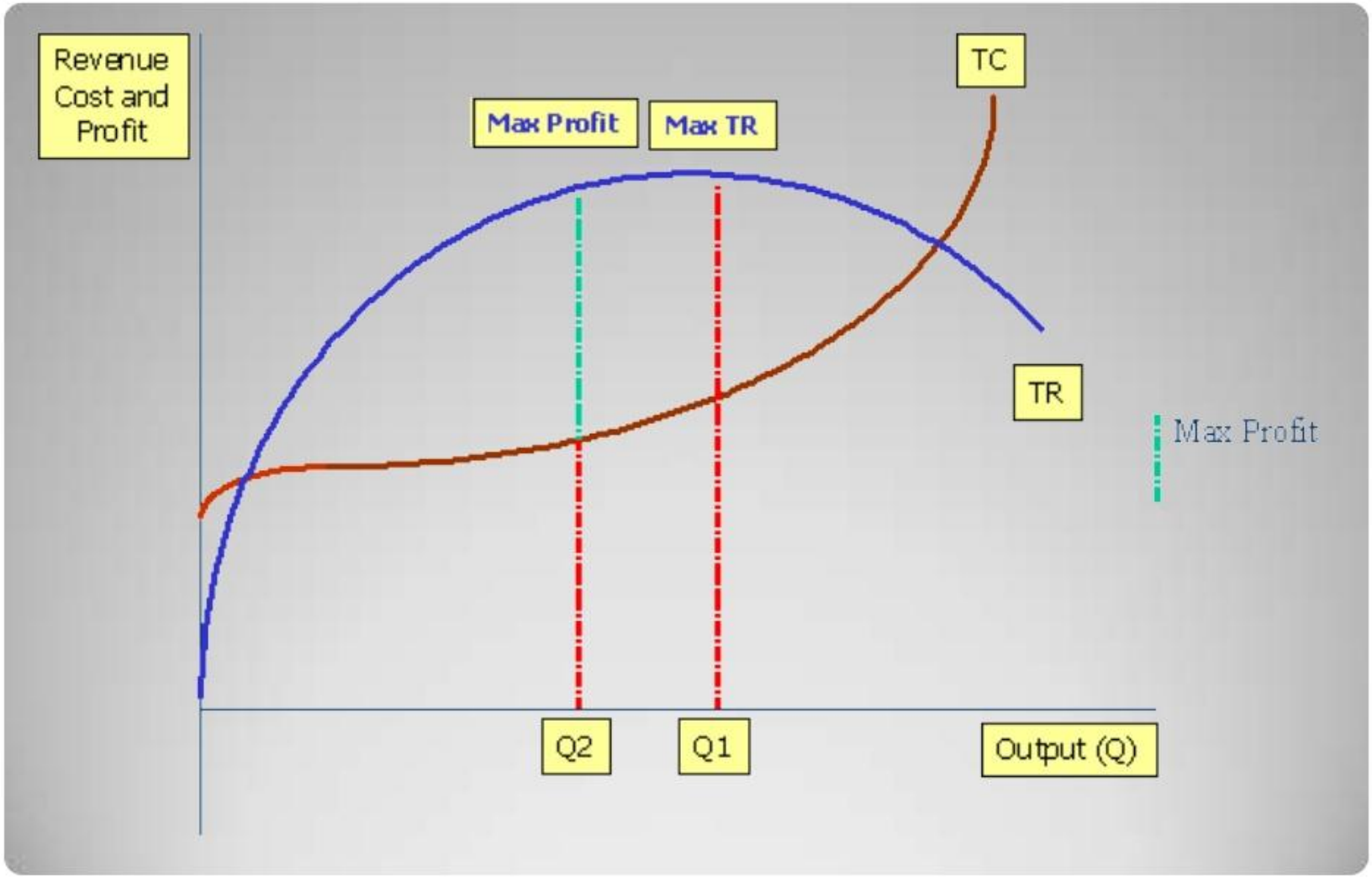
TP- Total product.



Sales Maximisation

PROFIT MAXIMISATION

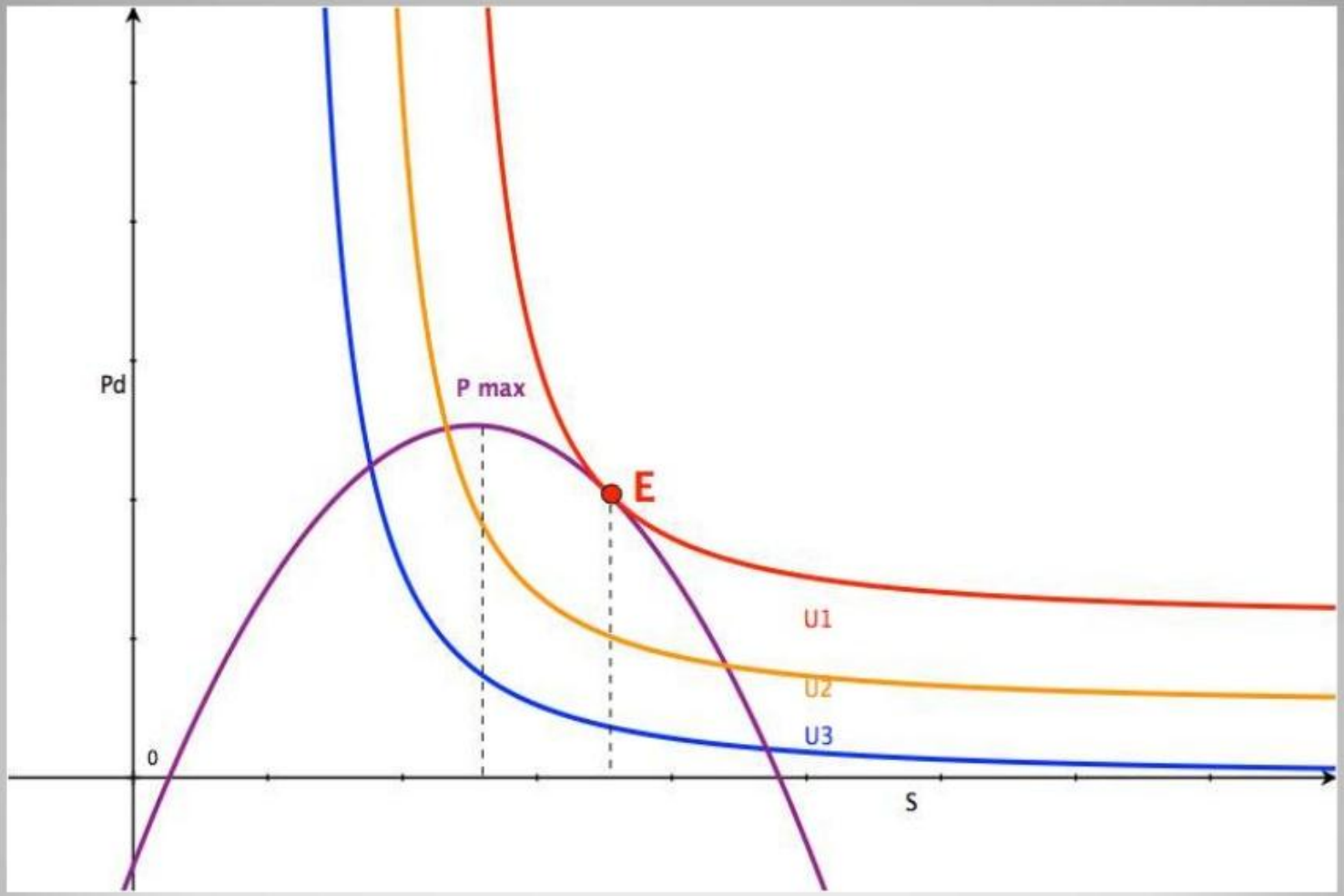
It is yet another important objective guiding the entrepreneur for the production of goods. Profit plays crucial role in the production decision taken by the firm. According to the traditional theory that level output which the maximum difference between the total revenue (TR) and total cost (TC) will help an entrepreneur maximize his profit . It is depicted in the Fig.



Profit Maximisation

UTILITY MAXIMISATION

Utility or satisfaction remains the end objective of human behavior. Taking this idea into account, economists like Benjamin higgins was of the view that small firms pursue the objective of utility maximisation. It is also called as preference function maximisation. According to this view the satisfaction to the entrepreneur does not come only from the maximisation of profit, but he may get this satisfaction from the leisure which he is able to enjoy. The figure help us…



Utility Maximisation

WELFARE MAXIMISATION

PERSONAL WELFARE:- The people who make decisions for a business are, in fact, people. They have likes and dislikes. They have personal goals and aspirations just like people who do not make decisions for firms. On occasion these people use the firm to pursue their own personal welfare. When they do, their actions could enhance the firm's profit maximization or, in many cases, prevent profit maximization.

SOCIAL WELFARE:- The people who make decisions for firms also have social consciences. Part of their likes and dislikes might be related to the overall state of society. As such, they might use the firm to pursue social welfare, which could enhance or prevent the firm's profit maximization.

GROWTH MAXIMISATION

A famous U.S. economist J.K.Galbraith made an empirical study of big corporation and came to the conclusion that managers pursue not single but multiple goals such as sales maximisation, utility maximisation etc. along with these objective, managers keep the prime objective to achieve the top level or the highest possible level of growth in output. They also try to improve their prestige, technical superiority and market power. They take the help of effective advertising on a large scale to influence the consumer in order to attain the above mentioned objective.