Main proposal of the profit maximisation economics essay

Economics

Profit-maximisation implies earning highest possible amount of profit during a given period of time. Profit-drive is the powerful force for all business actions of a company. Profit making competence signify the position, performance and importance of certain in market. The profit maximisation model is a extremely easy and decided model. It is the ideal model to describe the normal behaviour of a certain.

Main proposal of the profit-maximisation

The model is based on supposition that each certain seeks to maximise its income given certain technological and market restriction. The following are the main propositions of the model: Certain is a producing unit which exchange various inputs into outputs of higher value, by employing certain techniques of creation. The basic purpose of each firm is to earn maximum profit. A firm functions under specified market conditions.

The model

Profit-maximisation implies earning highest possible amount of profit through a given period of time. A firm should always give optimum productivity in order to get a huge amount of profit mutually in the short and long run depending upon different factors like internal and external. In the small run, a firm is able to make only minor adjustments in the production procedure as well as in business circumstance. It is to be illustrious with immense concern that a firm has to exploit its profits after allowing for various things. Such factors include: Pricing and company approach of competitor certain and their impact on the functioning of the specified firm. Assumptions of the model: The profit maximisation model is foundation on three vital assumptions. Profit maximisation is the major goal of the certain. Logical behaviour on the element of the certain to achieve its goal of revenue maximisation. Profit maximisation of certain can be described in two different ways. Total revenue and total cost approachMarginal revenue and marginal cost approachTR and TC approach - Profits of a certain are estimated by evaluated by entire revenue and total costs. Profit is the dissimilarity between TR and TC. In other words, surplus of profits costs is the profits. Profit = TR – TC. If TR is equal to TC, in that case, there will be breakeven point. If TR is less than TC, in that case, certain will be incurring fatalities.

Justification for profit maximisation

Basic objective of traditional economic theoryFirm is not a charitable institutionMost realistic prediction of price-output behaviourNecessary for survivalAchievement of other objectivesCriticisms: There are certain short-comings in this model for which it has received criticism. Few reasons for criticism of the model are as follows: Ambiguous termIt may not always be possibleSeparation of ownership and managementDifficulty in getting relevant information and dataConflict in inter-departmental goalsChanges in business environment

Discuss the various survey methods to forecast demand.

Survey methods assist us in getting the information about the prospect obtain strategy of possible buyers during collecting the attitude of specialist or by interviewing the consumer. These methods are broadly used in short run and for approximate the insist for new products. There are different approaches in this method. The various approaches are: Consumers interview MethodCollective Opinion MethodDelphi Method or Experts Opinion MethodEnd-Use Method

Consumers Interview Method

In this method, required information regarding their future purchase plans is collected directly from the consumers. Various approaches are used to gather information from consumers. They are: Survey of buyers' intentions through questionnaire. Direct interview method

Survey Of Buyers' Intentions through Questionnaire:

It is one of the oldest techniques of demand forecasting. It is also called " opinion surveys". The heart of a survey is the questionnaire. Questionnaire is prepared by an expert body who are specialists in the field of advertising and is dispersed with the consumer buyers either during mail or in person by the business and all related and exact information are gathered. Questionnaire is collected from the customers for the reason of assessment and is classified, shortened and analysed. The information so collected is combined and reconsidered by the top managerial with lot of experience. Finally, a statement is organized and submitted to management for pleasing final conclusion and thus the order estimate is done.

Direct Interview Method

In this method, clients are directly get in touch and discussion. Direct and easy questions are asked to the clients and are appeal to answer specially about their budget, expenditure plans, exacting point to be certain, the quality and quantity of products, comparative price favourites and so on for a particular period of time.

Complete Enumeration Method

In this way, all possible customers are discussion in a particular city or a region and the answers got during an interview are combined and carefully studied to obtain the most likely demand for a product. This method can be applied only for those products whose customers are located in a small region.

Customer panel method

In this method, different cross sections of customers which create the size of the market are certain from the related market during some variety method, are interviewed or surveyed. The certain customers form a panel. Based on the selected customers views expressed, the most likely required estimating.

Opinion Survey Method

This is a alternative of the survey method which is also known as " Sales-force polling" or " Opinion poll method". In this method, opinions of sales representatives, professional experts, the market consultants regarding the quantity of sales usual in the future are engaged. Thus the views of all salesmen are aggregated to get the overall probable demand for a product.

Delphi Method

In this method, exterior experts are chosen and the professionals are supplied with all type of information and arithmetic data. Opinions and visions of expert about the expected prospect sales of the company are measured. As the experts' opinions are more valuable, certain give more significance to them and prepare the future plan based on the estimated made by the experts.

End-Use Method

In this method, the sale of the product under thought is proposed based on the demand review of the industries using the given product as an transitional product. The demand for the final product is the client demand of the intermediate product used in the manufacture of the final product. It mainly used to forecast the demand for intermediate products, only.

Describe the characteristics of Monopolistic Competition

Existence of a large number of firms - Number of firms producing a product will be large. The size of each firm is smallMarket is characterised by imperfections - Imperfections may arise due to advertisements, differences in transport cost, irrational preferences of consumers, ignorance about the availability of different brands of products and prices of products, etc. Free entry and exit of firms - Each firm produces a very close substitute for the existing brands of a product. Element of monopoly and competition - Every firm enjoys some sort of monopoly power over the product it produces. Similar products but not identical - Under monopolistic competition, the firm produces commodities which are similar to one another but not identical or homogenous. Non-price competition - In this market, there will be competition among " Mini- monopolists" for their products and not for the price of the product. Definite preference of the consumers - Consumers will have definite preference for particular variety or brands loyalty owing to the special features of a product produced by a particular firm. Product differentiation - The most outstanding feature of monopolistic competition is product differentiation. Firms adopt different techniques to differentiate their products from one another. Selling costs - All those expenses which are incurred on sales promotion of a product are called as selling costs. The concept of industry and product groups - The monopolistically competitive industry is a ‘ group' of firms producing a ‘ closely related’ commodity referred to as " product group". More elastic demand curve - Product differentiation makes the demand curve of the firm much more elastic.

Explain the price elasticity of demand and also its applications.

Price elasticity of demand: is a technological term used by economists to describe the degree of receptiveness of the demand for a product to modify in its price. EP = (Percentage change in quantity demanded/ Percentage change in price)Based on numerical values of the co-efficient of suppleness, we can have the following five degrees of price elasticity of demandPerfectly elastic demand - A very small change in price leads to an unlimited change in demand. The numerical co-efficient of perfectly elastic demand is infinity (ED= □). Perfectly inelastic demand - Any change in price, the quantity demand will be completely constant. The demand curve is a vertical straight line and parallel to OY axis. Quantity demanded would be 10 items, irrespective of price changes from 10 to 2 Rs. Therefore, the arithmetic co-efficient of perfectly inelastic demand is zero. ED = 0. Relatively elastic demand - If there is a little change in price, then it leads to comparative change in demand. For e. g., demand rises by 9 % and price falls by 3%.

Hence, the numerical co-efficient of demand is larger than one. Relatively inelastic demand - A huge change in price, say 8 % fall price, leads to less than comparative change in demand, say 4 % rise in demand. Unitary elastic demand - There is in proportion change in price which leads to equal proportional change in demand. For e. g., 5 % fall in price leads to exactly 5 % increase in demand. Hence, elasticity is equal to unity.

Practical application of price elasticity of demand:

Production planning – It helps a producer to decide about the volume of production. If the demand for his products is inelastic, specific quantities can be produced while he has to produce different quantities, if the demand is elastic. Helps in fixing the prices of different goods – It helps a producer to fix the price of his product. If the order for his manufactured goods is inelastic, then the fix a higher price and if the demand is elastic, he has to charge a lower price. Thus, price-increase policy is to be followed if the demand is inelastic in the market and price-decrease policy is to be followed if the demand is elastic. Similarly, it helps a monopolist to practise price discrimination on the basis of elasticity of demand. Helps in fixing the rewards for factor inputs – Factor rewards refer to the price paid for their services in the production process. It helps the producer to determine the rewards for factors of production. If the demand for any factor unit is inelastic, the producer has to pay higher reward for it and vice-versa. Helps in determining the foreign exchange rates – Exchange rate refers to the rate at which currency of one country is converted in to the currency of another country. It helps in the determination of the rate of exchange between the currencies of two different nations. For e. g. if the demand for US dollar to an

Indian rupee is inelastic, in that case, an Indian has to pay more Indian currency to get one unit ofUS dollar and vice-versa. Helps in determining the terms of trade – t is the basis for deciding the ‘ terms of trade’ between two nations. The terms of trade implies the rate at which the domestic goods are exchanged for foreign goods. For e. g. if the demand for Japan’s products in India is inelastic, we have to pay more in terms of our commodities to get one unit of a commodity from Japan and vice-versa. Helps in fixing the rate of taxes – Taxes refer to the compulsory payment made by a citizen to the government periodically without expecting any direct return benefit from it. It helps the Finance Minister to formulate sound taxation policy of the country. He can impose more taxes on those goods for which the demand is inelastic and lower taxes if the demand is elastic in the market. Helps in declaration of public utilities – Public utilities are those institutions which provide certain essential goods to the general public at economical prices. The government may declare a particular industry as ‘ public utility’ or nationalise it, if the demand for its products is inelastic. Poverty in the midst of plenty – The concept explains the paradox of poverty in the midst of plenty. A bumper crop of rice or wheat, instead of bringing prosperity to farmers, may actually bring poverty to them because the demand for rice and wheat is inelastic.

Explain the factors determining elasticity of supply

Time period – Time has a greater influence on elasticity of supply than on demand. Generally, supply tends to be inelastic in the short run because time available to organise and adjust supply to demand would be insufficient. Supply would be more elastic in the long run. Availability and mobility of factors of production – When factors of production are available in plenty and freely mobile from one occupation to another, supply tends to be elastic and vice-versa. Technological improvements – Modern methods of production expand output and hence supply tends to be elastic. Old methods reduce output and supply tends to be inelastic. Cost of production – If cost of production rises rapidly as output expands, then there will not be much incentive to increase output as the extra benefit will be choked off by the increase in cost. Hence, supply tends to be inelastic and vice-versa. Kinds and nature of markets – If the seller is selling his or her product in different markets, supply tends to be elastic in any one of the market because, a fall in the price in one market will induce him or her to sell in another market. Again, if he or she is producing several types of goods and can switch over easily from one to another, then each of his or her products will be elastic in supply. Political conditions – Political conditions may disrupt production of a product. In that case, supply tends to become inelastic. Number of sellers – Supply tends to become more elastic if there are more sellers freely selling their products and vice-versa. Prices of related goods – A firm can charge a higher price for its products, if prices of other products are higher and vice-versa. Goals of the firm – If the seller is happy with small output, supply tends to be inelastic and vice-versa.

Discuss any two laws of returns to scale with example.

Three phases of returns to scale

Many economists have questioned the strength of arrivals to scale on the ground that all factor inputs cannot be enlarged in the same quantity and the proportion between the factor inputs cannot be kept consistent. However in some cases, it is likely that all factor inputs can be modified in the same amount and the output is considered when the input is doubled or tripled or increased five-fold or ten-fold. When the amount of all factor inputs are enlarged in a given proportion and output increases more than proportionately, then the income to scale are said to be rising. When the productivity increases in the equal amount, then the arrival to scale are said to be constant. when the output increases less than proportionately, then the arrival to scale are said to be diminishing.

Increasing returns to scale

Wider scope of use the latest devices, equipments, machineries, techniques etc to increase manufacture and reduce cost per unit. Large-scale production leads to full and complete consumption of inseparable factor inputs leading to further decrease in production cost. As the size of the plant increases, more output can be getting at lower cost. As output increases, it is possible to introduce the standard of division of labour and specialisation, efficient management and logicalAs output increases, it becomes possible to enjoy some other kinds of market of scale like overhead, financial, marketing and risk-bearing economies, etc, which are accountable for cost reduction. Constant returns to scale - In case of stable returns, the different internal and external economies of scale are defused by internal and exterior diseconomies. When both internal and external economies and diseconomies are exactly fair with each other, constant returns to scale will operate. Diminishing returns to scale - Diminishing Returns to Scale function due to the following reasons: Emergence of problems in co-ordination and control. Difficulty in effectual and better supervision. Delays in organization decisions. Inefficient and misconduct due to overgrowth and development of the firm. Productivity and competence declining inescapably after a point.**** EOD ****