

Strategies to maximise profits in the first year



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How will the company maximize its profits (or minimize losses) its first year, while it is a monopoly firm? Give concrete examples by referring to the cottages, restaurant and ferry. What advantages does it have in its first year and how can it maximize profits? What are the risks associated with this strategy?

In the first year the firm would be a monopoly firm as there is no existing firm in the market dealing with the vacation destination on Partridge Island. It provides rent services for cottages, restaurants and ferry. Being a monopoly firm it has two choices available first one is to decide how much quantity is to be sold and the other one is the decision about the price to be charged. An important thing is that a monopolist can either decide quantity to be sold or the price to be charged, but not both the price and quantity simultaneously. If this firm take a decision about price then the quantity sold will be decided by the market. If given firm decides about the quantity to be sold then the price will be decided the market forces. In order to maximize profits or minimize losses the firm will produce at a level at which its marginal costs are equal to its marginal revenues. Level of output is determined by the intersection of these two curves. To take decision about the prices and quantities monopolist will have to use the data on market demand and prices, and will supplement this data with the costs faced by monopolist. This firm will charge a price which is far higher than the marginal economic costs as there is no danger of losing customers. The firm is price maker in this case and has a complete control over prices as being a single provider of cottages, restaurants and ferry on Partridge Island.

There is no perfect substitute available in the market therefore the firm will try to charge a maximum possible price. In order to maximize the total profits the firm will have to carefully analyse the demand structure for cottages, restaurants and ferry, separately. Maximum rent will be charged for a service that has most inelastic demand. Inelastic demand ensures that consumer will go to avail the services of this firm even at high prices. On the other hand comparatively low rent will be charged for a service having more elastic demand. In this way among the three departments of cottages, restaurants and ferry, the rent will be determined by the firm keeping in view the motive of profit maximization. As far as the determination of rent is considered costs play a very important role. It is possible to decrease the rent in the department which is having a favorable cost structure as compared to the other departments of the firm. It is often observed that a monopoly firm usually earns abnormal profits both in the long run and short run but it is also possible for a monopolist firm to experience losses. In case of losses the firm will try to minimize the costs being faced by doing so the difference between revenue and costs will be decreased and thus the losses.

The following year, a new business enters the market and provides cottages, restaurant and ferry. What strategies will you recommend so your client continues to maximize its profits now that it is in an oligopoly? What are the risks associated with these strategies?

In the following year when a new business enters the market, it will lead to completely change the market structure from monopoly to oligopoly, as there are two firms now competing with each other. In such circumstances there are two possibilities for these competing firms. First one is that these

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two firms will keep competing with each other by indulging themselves into price and non-price competitions. The other possibility is that they will come at an agreement and will form a cartel. The cartel will serve to increase the profits for both the firms. This is due to the fact that if they keep competing then they will have to lower down the prices which will in turn reduce profits of both and they will come at a level at which profit is quite lower than the monopoly profits. On the other hand if they form a cartel then they will be able to enjoy the monopoly powers. These two firms will have complete control over the price and quantity and will be able to charge a higher price as now there is no substitute available for the services provided by this cartel. Cartel is referred to a formal and explicit agreement between two or more competing firms which is aimed to generate the monopoly powers for the firms in order to raise the levels of profit. In this case the two firms dealing with the business of restaurants, cottages and ferry will agree to fix the rents marketing or production. Formation of cartel depends upon the nature of market and here the nature of market i. e. oligopoly is perfect to enjoy the benefits associated with cartels. The members of cartel reach an agreement and then act together as being a single seller, with mutual consensus, in order to have an influence on the prices of goods and services. They control these prices by acquiring a control over production and marketing. The two members will have to agree upon certain factors like share in industry's provision of services, market shares and fixation of prices. They come at an agreement after having completed detailed negotiations on terms and conditions of the important matters.

In this case it is also an important consideration to decide about allocation of territories, customer's allocation, formation of common sales agencies bid rigging and division of profits among these two firms. Their joint aim will be increase of profitability by reducing the competition in the market. If these two firms remain successful in acquiring government shield regarding the formation of cartel then this cartel will be known as public cartel and the enforcement of cartel agreement will be ensured by the state. On the other hand if they just try to focus on the benefits of the two firms who constitute it then it will be recognized as private cartel. As compared to private cartel it will be more beneficial for the society as a whole that these two firms form a public cartel, due to the fact that in case of public cartel the benefits are passed to the respective society as a whole. It is observed that competition laws are always found to oppose the formation of cartel therefore these two firms will have to keep in mind the rules and regulation associated with the formation of cartels in the country so that they may ensure their long run existence in the market. However, it is always very difficult for law implementation agencies to prove the existence of cartel in any market. To avoid the disclosure of involving in cartel making and resulting negative consequences often firms do not paper the hidden agreements existing among them. These firms will try to regulate supply with an aim to regulate the prices being charged for the services provided by two.

Three years later there are 20 companies providing cottage rental, restaurant and ferry services to Partridge Island. What strategies would you recommend to your client to maximize profits now that it operates under monopolistic competition?

Now there are twenty companies in the market meaning that now the nature of competition is similar to that of monopolistic competition where there is a reasonable number of firms in the market competing with each other. In order to maintain the position of the individual firm in a market and to ensure the survival firms compete on the basis of product differentiation. No firm can survive in the industry if it ignores the strategy of product differentiation. Product differentiation means that firms try to generate differences in their products or services to make their products attractive as compared to those of rivals. The purpose is to acquire the attraction of buyer in order to increase the demand for the products offered and resultantly to increase the profits.

The profit maximization will occur at the same point as it is in monopoly i. e. a point at which Marginal Revenue is equal to marginal costs. Firm will produce output and charge the price corresponding to the intersection of marginal revenue and marginal cost. As far as the strategies to maximize profits are concerned the main strategy which must be followed by the firm is to create differentiation in the services offered by this firm. They will have to discover different ways to make their services alike, it will ensure the rise in the competitive advantage associated with the services offered. These differences in the services may be of real nature or that of an imaginary one. Real differences involve an actual services. These differences which should be created by the firm in order to maximize the profits may also be of imaginary nature for example simply changing the style of services provided. In this case there will be no real difference in the services but by changing the presentation style, customers will get attracted to the services of this

particular firm and will prefer this firm among other twenty firms operating in the same industry. It is considered to be very important in the field of business dealing with cottages, restaurants and ferry to maintain a unique position in the market especially when there are many firms competing. In this industry the importance of services provided is like that of lifeblood in the human body. Therefore, it can be suggested that this firm will have to improve the standards of services, including that of staff and related to the comfort of customers. Customers comfort should be of primary importance for the firm and to do so they can do many different things. For restaurants and cottages they should improve the living conditions including furniture and food provided to the customers. As far as the case of Ferry is concerned user friendly services will have to be provided and to do so they should relax the terms and condition elated to the transport of goods and they may also maintain their position in the market by offering relatively low prices as compared to those offered by competitors. The strategy to reduce prices will have a positive impact to increase the preference for this firm among customers.

Ten years later we find hundreds of companies providing the same services. What strategies would you recommend to your client to maximize its profits in a perfectly competitive market? If your client was losing money, when would you recommend it shut down its activities and when should it leave the industry altogether.

Ten years later when there are hundreds of new companies in the market the monopoly power faced by the firm will totally abolish. The firm will have no control over the price charged from the customers. The main reason

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behind this is that now there is large number of firms offering almost the same services, so if this firm tries to charge a higher price it will lose its customer as they have a large choice available in the form of service providers of cottages, restaurants and ferry. The firm will become a price taker one and will have a choice to take only one decision that is of quantity to be sold. The market structure now resembles that of perfect competition, with large number of buyers and sellers, free entry and exit and having almost perfect substitutes available. In this case the firm cannot charge high prices for any of cottages, restaurants and ferry as there are large number of firms offering almost similar services so the rise in price will contribute to shift the customers to any other service provider, hence contributing to decrease the revenues of client firm.

In a perfectly competitive market it becomes difficult to generate abnormal profits in a long run. However there is a possibility that firm enjoys abnormal profits in short run which will encourage the entrance of new firms in the industry and this mechanism will lead to decrease the abnormal profits enjoyed by the firms. In order to maintain a profit maximizing level the strategy followed by the firm should be based on the production of output or provision of services, at the minimum level of average cost curve. In other words firm should produce at a level which is optimal for it and at which the costs faced by the firm are minimized. The strategy to produce at optimal level will lead to generate at least normal profits for the firm in long run and it may earn heavy profits in short run. In a perfectly competitive market firm should never try to compete on the basis of prices as it would prove to be a useless strategy. As far as the general rules of profit maximization are

concerned the profits are maximized at a point where the Marginal cost curve intersects the marginal revenue curve. In addition to this the slope of MC is more than the slope of MR. Here in perfectly competitive market the Marginal Revenue (MR), Average Revenue (AR) and price (P) curves are the same. These curves are represented by the straight line which is horizontal to the X-axis showing that the firm has no control over the price of its product or service. The optimal output is not just determined by the cost information instead the knowledge of cost and demand conditions enables the firm to determine the optimal level of output which maximizes its profitability. The demand curve can be obtained by plotting sales revenue at different levels of output. The optimal output of the firm is sensitive to the price and costs associated with it, resultantly whenever the cost conditions or the prices of services in the restaurants, cottages and ferry market change, then the optimal output of this particular firm will also be changed. As here exist intense rivalry among the business of restaurants, cottages and ferry, so the firm should try to introduce new products, improve the quality of existing products and make more advertising expenditures. It is also extremely important to timely respond the strategies of competitors in the market.

How can changes to the labour market be linked to changes in income distribution? What could be driving income disparities between high-income earners and low-income earners (in Canada or elsewhere)? What could be the negative impacts of these disparities? Are these short term differentials or equilibrium differentials? What policies could government put in place to improve income opportunities for low-income earners?

Due to the wage restraints all over the world, people on higher end enjoy most of the benefits of economic gains leaving majority of the people deprived of the advantages associated with production processes. The status and position of migrants, women and minorities is miserable in the income distributions of most of the countries. The major contributor to promote income disparities and inequalities all over the world is decreased powers of labor unions. These unions remain unable to secure a reasonable rate of wages due to weak bargaining power associated with them. A gradual and long term decline in labor union memberships has also been observed in the past and the trend still continues. There is also negative impact of Right to Work Laws on the equal distribution of resources in an economy. These laws on the one hand benefits in achieving social welfare and on the other have adverse impacts on the income distribution, while promoting the situation of inequality in the country. Moreover, in case of Canada the premiums set by labor unions are also quite low to ensure the well being of low income and middle income classes.

The gap between rich and poor as represented by the income inequality is widening these days in Canada and the income inequality is far higher than the level at which it was thirty years ago. The inequality in favor of rich is posing serious threats to the economy as it is contributing to increase the level of aggregate demand, hence promoting highly rising inflation in the country. Poor is suffering a lot and resources available to this class for the purpose of education or for investment in business are very few. This is the major reason that poor remain trapped into the vicious circle of poverty and rich get richer day by day. Moreover, another impact of income inequality is

that it leads to generate increased probability of financial distress for the economy which may serve to hinder the progress in long run. Due to distress in the society caused by income inequality, the crime rates also increase e. g. it is often observed that poor section of society indulge itself into criminal activities like murders, in order to create money for themselves and their children, so that they may the basic needs of daily life. As far as the general welfare of society is concerned income equality makes it impossible to provide similar facilities to different sections of society. Among these the most important consequence of in equality is reduced availability of health facilities which results in lower life expectancy especially for the case of poor, who has limited resources to obtain proper food and health facilities.

These differentials existing between different sections of society may prove to be if long run nature if not controlled with proper policies of private and public sector. In case of Canada the differences are persistent in nature, therefore, it can be concluded that these differences between rich and poor are of long term nature in Canada. In order to deal with the income inequalities government can adopt fiscal policy changes like that of tax policy change. The measures to adopt progressive taxation can prove to be very helpful. Another way regarding tax policy is to tax the non-parents in Canada as no -parents have larger median incomes as compared to the parents. Moreover, the responsibilities of parents are larger than the non-parents and it is very beneficial to provide them an ease in the form of tax break. Tax rate should be higher on the incomes of producers as the producers comprise that section of society which is comparatively wealthier. Government can also provide ease to the poor section to get them out of the

poverty trap, in the form of subsidies on the products used by poor. In addition different allowances and benefits should be designed by the government of Canada to facilitate poor so that the disparities can be removed and income distribution may get equal for all the sections of society.