

Managerial economic

[Literature](#), [Russian Literature](#)



Profit rates differ among firms in a given industry and even more widely among firms in different industries. Please explain the factors which contribute to different profit rates. Profit rates differ among firms in any given industry in variety of industries. Several theories are explained below to show which the factors are influences the profit of a firm; A. Risk Bearing Theory of Profit The idea was conceived initially by an American economist, F. H. Hawley. Hawley believed that a circle of production begins the moment an entrepreneur contracts the services of other factors of production, it takes a full round only when the goods have been sold and revenue realized by the entrepreneur. The circle takes time before it is completed. During all this time, the entrepreneurs have to honors his contractual obligations and wait for the goods to get ready for sale. He has also to guard himself against possible fire, theft etc. finally, if his estimates go wrong, the entrepreneur may not be in a position to realize even the expenses that he has incurred on the production. An entrepreneur has to bear these risks and enjoy the surplus of revenue over costs, as Hawley himself puts it, “ the profit of an undertaking, or the residue of the product after the claims of land, labors and capital are satisfied, is not the reward of management or coordination of risks but of the risks and responsibilities that the undertaker subjects himself to". Apparently higher the risks, few entrepreneurs will come forward and therefore higher the surplus that will be for those who decide to undertake it.

B. Frictional Theory of Economic Profits Economic profits or losses are frictional profit theory. It states that markets are sometimes in disequilibrium because of unanticipated changes in demand or cost conditions.

Unanticipated shocks produce positive or negative economic profits for some

firms. For example, automated teller machines (ATMs) make it possible for customers of financial institutions to easily obtain cash, enter deposits, and make loan payments. ATMs render obsolete many of the functions that used to be carried out at branch offices and foster ongoing consolidation in the industry. Similarly, new user-friendly software increases demand for high-powered personal computers (PCs) and boosts returns for efficient PC manufacturers. Alternatively, a rise in the use of plastics and aluminum in automobiles drives down the profits of steel manufacturers. Over time, barring impassable barriers to entry and exit, resources flow into or out of financial institutions, computer manufacturers, and steel manufacturers, thus driving rates of return back to normal levels. During interim periods, profits might be above or below normal because of frictional factors that prevent instantaneous adjustment to new market conditions.

C. Monopoly Theory of Profit For a competitive market, profit maximizing occurs when $P = MC$ (and profits are zero). For a monopoly, profit maximizing occurs when $MR = MC$, where MR is not necessarily equal to P . There's some basic economic logic here, and it's just about the same as the perfect competition logic. If you gain more revenue by selling one more unit than you have to pay to make it, then you should make it. If it costs more to make it than you can get selling it, then you shouldn't. Determining price in a monopoly is simple. Monopoly power may arise from firms owning and controlling the entire supply of a raw material required for the production of the commodity, from economies of large-scale production, from ownership of patents or from government restrictions that prohibit competitions.

D. Innovation Theory of profit While in the past the internationalization of firms was mainly a matter

of the internationalization of their markets and hence supporting through adaptation the wider exploitation of their established technological competences, it is now also becoming a matter of the internationalization of their ability to create technological competences through the combination of geographically distinct lines of innovation. The greater scope for establishing such international research-based networks has depended upon organizational innovation and new types of managerial capabilities, as stressed by scholars of business strategy. The emergence of institutions that can accommodate successful international integration of corporate innovation implies a shift away from obtaining profits through the exploitation of established capabilities through new positions of market power abroad, towards the creation of innovative profits by building new capabilities through knowledge exchanges and cooperative learning, and thereby utilizing cross-border networks for the establishment of new value generating activities. These recent changes have further reinforced the growing relative importance of innovative profits.

E. Managerial Efficiency Theory of Profit

This is a theory of managerial entrepreneurship that says you can accurately predict all profits in any given exchange. The basis of the idea is that all inputs, supplies and sales are marketed and have a market price. If a manager can tie the input prices to the output prices, then you can predict everything precisely. The payoff here is that the entrepreneur becomes a manager -- it all comes down to numbers. This approach rejects the normative view of business, since everything revolves around market prices, which, in turn, revolves around demand.