MA- 2ND SEMESTER, PATLIPUTRA UNIVERSITY

ALTERNATIVE THEORIES OF THE FIRM
Managerial Theories

- Baumol’s Model - Theory of Sales Revenue Maximization
- Williamson and Marris Model – Maximum growth of the Firm
- Bain’s Model - Limit Pricing
- Cyert and March – Behavioral Model
Baumol’s Theory of Sales Revenue Maximization

- Maximise sales revenue subject to minimum profit constraint.

- Why there is focus on revenue not on Profit.
  # Sales are good indicator of a firm performance
  # Executive Power, influence, status are linked to sales performance
  # Lenders rely on sales data
  # Profit figure is available annually
  # Maximising of sales is more satisfying for firm as profits go to the pocket of shareholders.
  # Salaries and incentives are linked to sales.
INTRODUCTION

- Primary Motive- Sales Maximization
- Producing more keeping low price and thus investing more on advertisement.
- Maximization of sales revenue subject to minimum profit constraints.
ASSUMPTIONS

- Single time period
- Oligopoly Firm
- Sales maximization is objective
- There is U shaped cost curve
- There is downward sloping demand curve
Thus there are two types of equilibrium:

- One in which profit constraint does not provide an effective barrier,
- And second in which profit constraint does provide an effective barrier
CRITICISM

It has been argued that in the long run, Baumol’s sale maximisation hypotheses and the conventional hypothesis will yield identical results as required level of profit would concide with normal level of profit.