A-LEVEL ECONOMICS • EXERCISE SHEET

7.8 Differing objectives and policies of firms

Name: ____________ Class: ________ Date: __________ **Total: 22 marks**

Objective

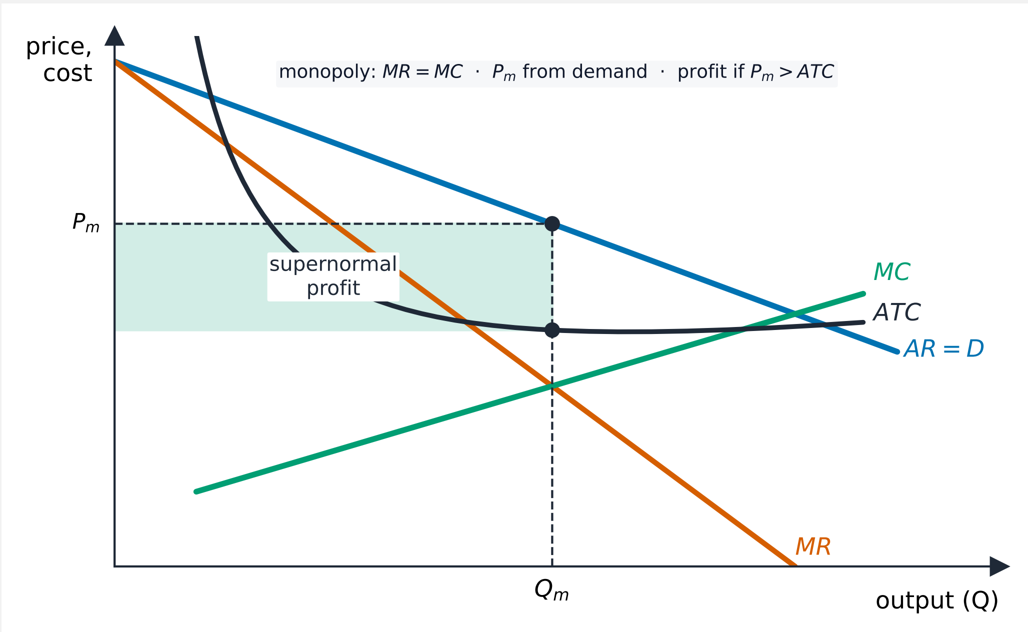
Build the skills to answer exam questions on the **differing objectives of firms 企业的不同目标—profit, revenue and sales maximisation 利润、收益、销售最大化, satisficing 满意化**, and the **divorce of ownership from control 所有权与控制权分离** (the **principal-agent problem 委托代理问题**).

You must be able to:

- describe the alternative objectives of firms
- explain the divorce of ownership from control
- analyse why firms may not maximise profit

1 Worked examples

What firms aim for

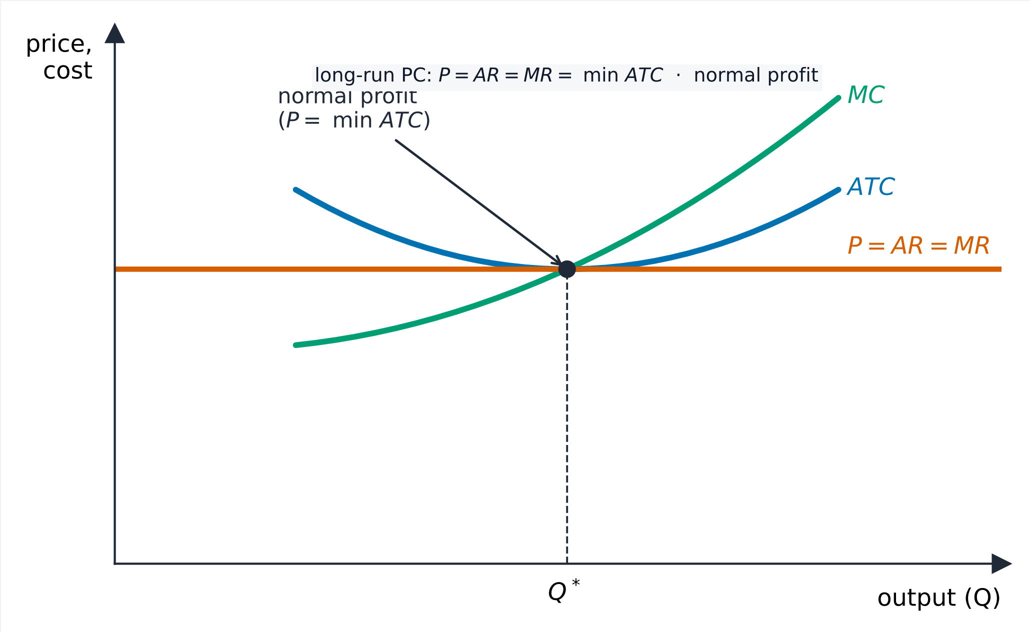


Profit maximisation is the traditional aim —but not the only one

- **Profit maximisation 利润最大化**: produce where **MR = MC**. **Revenue max-**

imisation 收益最大化: where MR = 0.

- **Sales maximisation** 销售最大化: largest output while still making normal profit. **Satisficing** 满意化: ”good enough” for all stakeholders.



Market structure limits the objective: under perfect competition only normal profit is possible

- **Divorce of ownership from control** 所有权与控制权分离: managers owners → the **principal-agent problem** 委托代理问题 (managers pursue their own aims).

Answer shapes: AO1 + AO2 + AO3 (analysis) + AO4 (a supported judgement *in context*).

2 Practice

2.1 State the output condition for *profit maximisation*. [1]

2.2 Define the term *satisficing*. [2]

2.3 Define the term *divorce of ownership from control*. [2]

3 Exam-style questions

3.1 A firm that aims for **revenue maximisation** produces where: [1]

- **A** marginal revenue equals marginal cost
- **B** marginal revenue equals zero
- **C** price equals average cost
- **D** average cost is at its minimum

3.2 Explain how the divorce of ownership from control can lead to the principal-agent problem. [6]

3.3 Discuss whether firms always aim to maximise profit. [12]

4 Go further

You are now ready for the real exam questions on this subtopic. Open the **7.8 Differing objectives and policies of firms** past-paper sheet in the Library, or try these in **Practice mode**:

- 9708/31 N25 —Q1 (objectives of firms)
- 9708/31 N25 —Q7 (profit maximisation)
- 9708/32 N25 —Q9 (alternative objectives)

Solutions

Economics answers are marked by **level of response** against the assessment objectives: award **AO1** knowledge, **AO2** application, **AO3** analysis and **AO4** evaluation.

2.1 produce where marginal revenue equals marginal cost (MR = MC) (1).

2.2 aiming for results that are "good enough" to keep owners, workers and customers reasonably satisfied, rather than maximising any one thing (2 for a clear definition; 1 for a partial idea).

2.3 when the owners (shareholders) of a firm are different people from the managers who control its day-to-day decisions (2 for a clear definition; 1 for a partial idea).

3.1 B. Revenue is maximised where marginal revenue equals zero.

3.2 *[6]* AO1 1 + AO3 up to 5 —owners (principals) want maximum profit, but managers (agents) control decisions and have their own aims (higher salaries, an easier life, bigger firms) → because owners cannot fully monitor managers, managers may pursue their own goals instead of profit → the firm does not maximise profit.

3.3 *[12]* AO1/AO2/AO3 up to 8 + AO4 up to 4. **For profit max:** profit funds survival and rewards owners, and competition forces firms towards it. **Against:** the divorce of ownership and control lets managers satisfice or pursue sales/revenue growth, and firms may pursue ethical or market-share aims. Judgement: profit maximisation is a useful baseline, but in large firms with separated ownership, other objectives often dominate — it depends on the firm's ownership and the strength of competition.