BOUMAL'S TEORY OF SALES MAXIMISATION

- According to Baumoul, *"The sales maximization goal says that managers of firms seek to maximization their sales revenue subject to the constraint of earning a satisfactory profits."*
- Primary objective: sales maximization
- Producing more keeping low price and advertisement
- Maximization of sales revenue subject to minimum profit constraint

Assumption

- Single time period
- Oligopoly firm
- Sales maximization objective
- Cost curved U-shaped
- Minimum profit constraint determined
- Demand curve downwards
- Minimum profit constraint determined

Baumols theory

Baumol'S Model
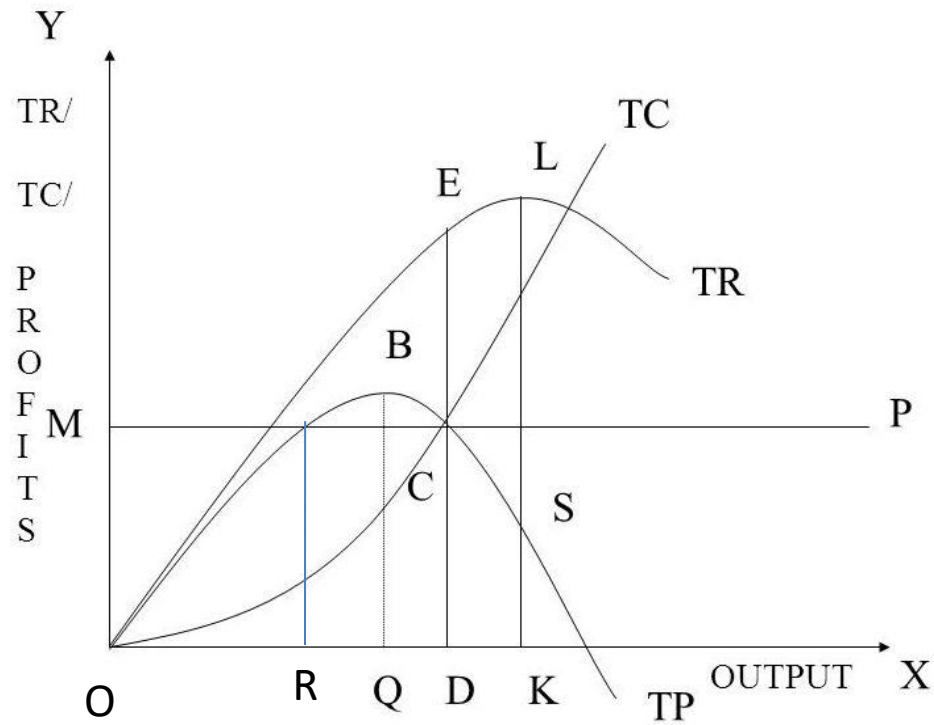
- In figure, TC & TR used profit maximization, were TR-TC is maximum
- TR still rising
- MP is Profit constraint which is maintain by producers
- Pont 'E' is the maximum sales and point 'C' is the profit constraint which is maintain by producers always.

Thank you

Limit Pricing Theory

- According to Bain explains why firms over a long period of time were keeping their price at a level of demand where the elasticity was below unity, that is, they did not charge the price which would maximize their revenue.

Assumption

- Oligopoly with price leader
- Firms types: small, medium and large firm
- There is effective collusion among the established Oligopolists.
- The established firms can compute a limit price, below which entry will not occur.
- Economics of scale: small firms have high AC, large firm have lower AC
- Large firm is the price leadership which is follow by the small firms

Limit pricing figure
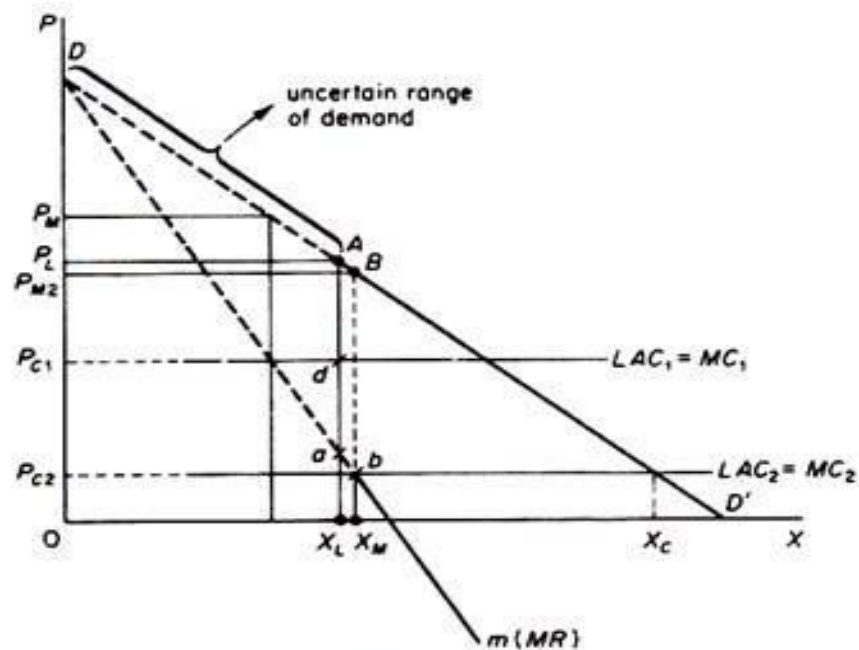
Limit pricing theory

- In figure:
- Both AR and MR cure are downward sloping
- LAC=LMC
- PC firm: P=oPc. Equilibrium at B, Q=Qc, AR=LACc. Normal profit
- Monopoly firm: P=Pm, equilibrium at m, MC=MR, Increase MC.Q=Qm. Abnormal profits=PcPmA m.
- Limit price firm: price fixed at PL>Pc, but >Pm. Point of entry of potential firms. Abnormal profits=PcPLCC1< monopoly profits, but> perfect competition

Limit pricing theory

- Monopoly price is fixed at the elastic part of the demand curve.
- Monopoly firm makes large abnormal profit.
- Attracts new firms, and monopoly loses its market.
- If firm fix a price <Pm but >Pc.
- They still earn some abnormal profits, but not maximum profits.
- At this price, D curve is inelastic (MR<0)
- Firms make only normal profits, price of new entry.
- Oligopoly market remain stable.

Thank you