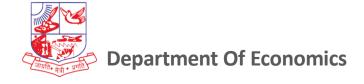


M A Economics Semester II

Paper: Microeconomics (CC 07)

Topic: Williamson's model

Content By: Mona, Department of Economics



Topic: Williamson's Modet of Managerial Discretion

The managerial theory of firm developed by Oliver E. Williamson states or and managers apply discretion (the freedom of power to make the decision by yourself) in making and implementing policies to maximize their own utility author than trying for the maximization of profit which ultimately maximize own utility subject to minimum profit. Profit works as to limit to the top manager's behaviour in the sense that the financial market and the shareholders requires a minimum profit to be paid out in the form of dividents; otherwise the job security security of Managers is put in danger. Hence, manager, Look at their self-interest while making decision on price and selling quantity of output Manager's decision on price and sulput differs from the decision of profit maximizing from. Utility maximization of manager guided by their own self interest is possible like in Boumol's sales maximization model, only in a corporate type of business organisation with the separation of ownership and mana -gement functions such organizational structure permits the managers of a firm to pursue their own self-- Interest, subject only to their ability to keep effective -e control over the firm. On perbouler managers are fairly certain of keeping hold of their powers. ii. If profits at any time are at an acceptable Level . A (ii). If the firm shows a resonable rate of growth Over time, and (iii) et sufficient diridents are paid to yeep the Shareholders happy

changes in demand.

P = {3(x', 3, E) = N . M. do thous Again; where; x = Output Qb KO QE > O QE > O fr (P, S, E) and f3 (Q, S, E) are the market demand equations for the firms product: An increase in staff expenditure (s) is supposed to cause an upward shift to the demand curve and thus allow the charging of a higher price. The same period holds for any other change in the environment which shifts upwords the demand curve of the firm. Production Obst the bital Cost of production (c) is assumed to be an increasing function of of output. So; M = M C = fa(X) M = MTC (Total Cost) = VC (variable) + FC (fixed cost) $\frac{\partial x}{\partial c} = 0$ Actual Profit (n) The actual profit is profit as revenue from 821e8 (R) minus the production costs (C) and minus staff expenditure (s) or actual profit are the difference between total revenue earned less the production costs and staff expenditure (s).

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