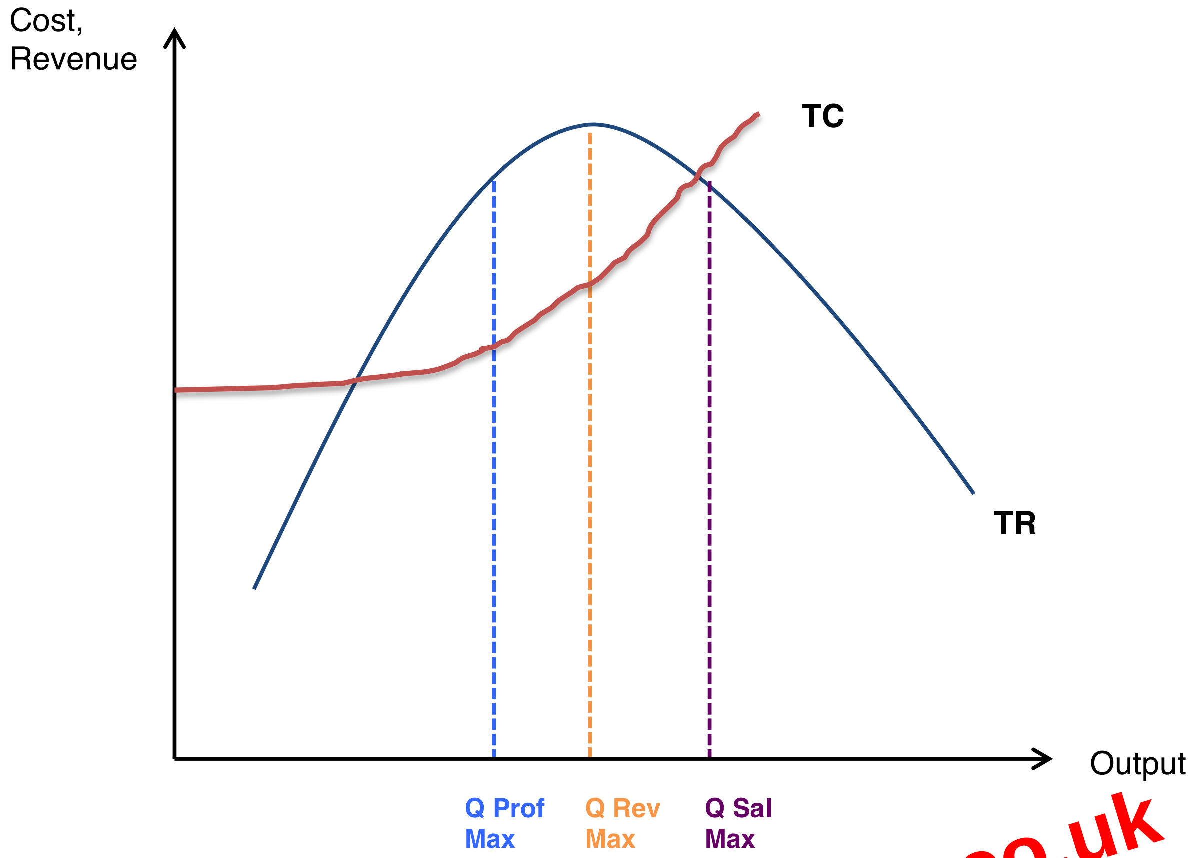

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Page 2 of 2

Satisficing

US economist Hebert Simon argued that decision making within a company results from the interaction between many competing groups within the firm.

A solution is **satisficing**, which is a compromise between different groups in the firm, which may be seen as satisfactory. This essentially means that the firm will make enough profit to satisfy, without having to strain to maximise profit.

Satisficing – Compromises between different groups in the firm, which may be seen as satisfactory.

A change in the objectives of a firm has an effect on welfare, in particular the balance between consumer and producer surplus.

- There is higher producer surplus when firms are profit maximising, as output is low and the price is high.

- There is higher consumer surplus when firms are revenue/sales maximising as the output is high and price is lower.

Stakeholders – Anyone that has a vested interest in the activities of the business.

The Principal-Agent Problem

Stakeholders are likely to have differing objectives; this is called the **principal-agent problem**. Examples of stakeholders are:

- Shareholders
- Customers
- The government

Principal-Agent Problem – When the manager does not always act in the best interest of their shareholders.