Economics classes by Nandini Mehta
For MA Sem 2
Theories of the Firm
Maria's Model of Managerial Enterprise

(K) Pg 352
Verma – Pg 455
Ahuja – Pg 939
Jhingan – 524

Growth Max^(ion) Model of Marris.

Marris's Model of Managerial Enterprise

R. Marris. "A Model of Managerial Enterprise" Quarterly Journal of Economics. 1963

2. – Theory of 'Managerial' Capitalism. (Macmillan) 1964

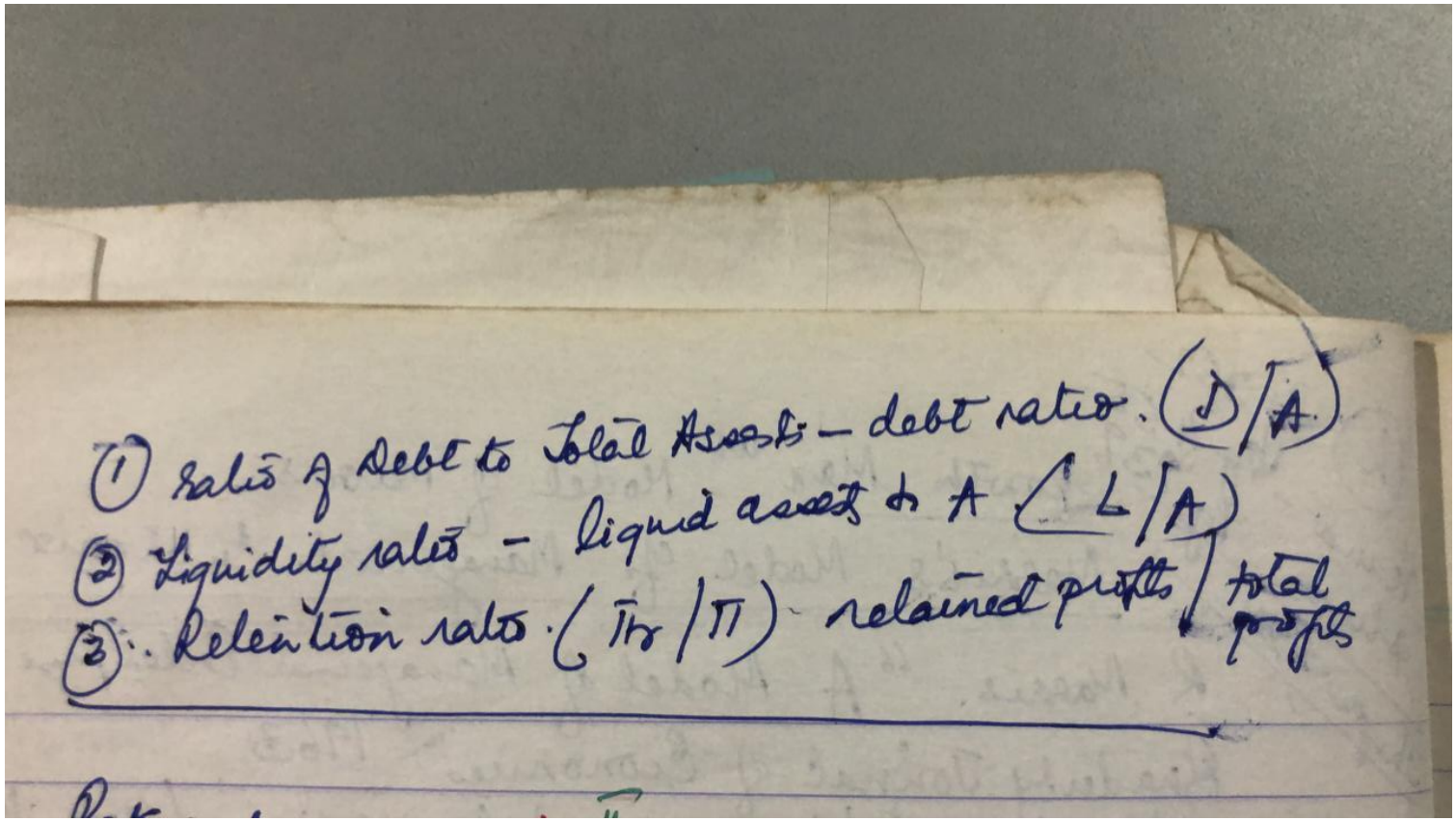
I Goal of firm not to max'se profit or sales but
⇒ To maximise balanced rate of growth of firm

⇒ Possible when there is
(a) maximum rate of growth of demand of prodt of firm (G_D) AND
(b) " " " " of supply of capital G_C

I ∴ Maximise $G = G_D = G_C$.

II Firm faces two constraints
(A) Managerial constraint – strength of avail managerial team + its skills
(B) Financial Constraint: set by desire of (M) to achieve max. job security. (imp while taking business decisions). This can be attained by (a) prudent financial policy (b) avoiding risk of dismissal (c) or financial failures leading to take over of firm ∴ (d) ∴ non involvement in risky ventures →

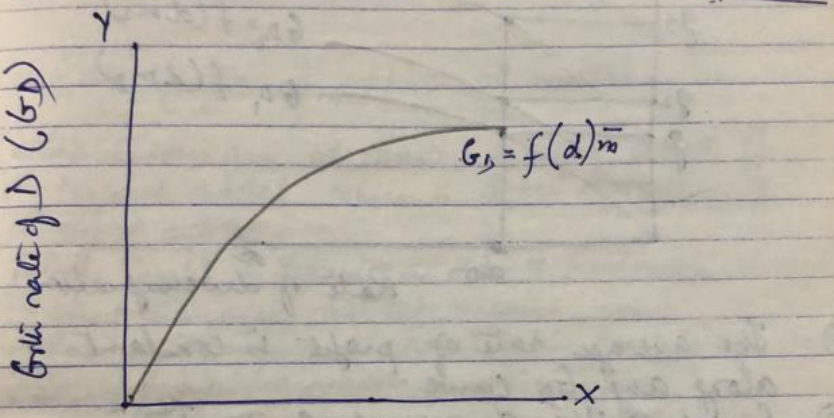
This involves optimal levels of 3 crucial financial ratios



(1) Ratio of Debt to Total Assets – debt ratio. (D/A)
(2) Liquidity ratio – liquid assets to A (L/A)
(3) Retention ratio. (π_r/π) – retained profits / total profits

∴ G_D can be expressed as

$$G_D = f(d, m)$$



(Koutsiyanis Pg 358-359)

[$\because G_D = fn(d, m)$

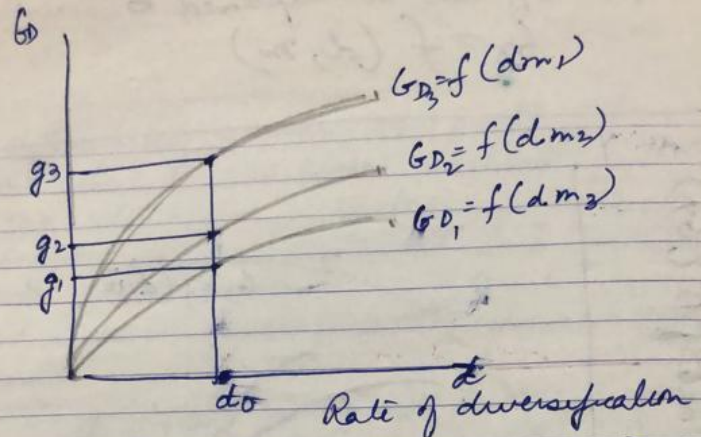
$\frac{\partial G_D}{\partial d} > 0$ (but declining) [increasing fn.

$\frac{\partial G_D}{\partial m} < 0$ [decreasing fn]

① negative rel'p bet G_D & m.

② ∴ lower m = larger G_D (∵ of larger A & R&D expenses, ∴ larger prop. of successful products

∴ higher growth of G_D ($g_3 > g_2 > g_1$)



① The average rate of profit is constant along any G_D curve.

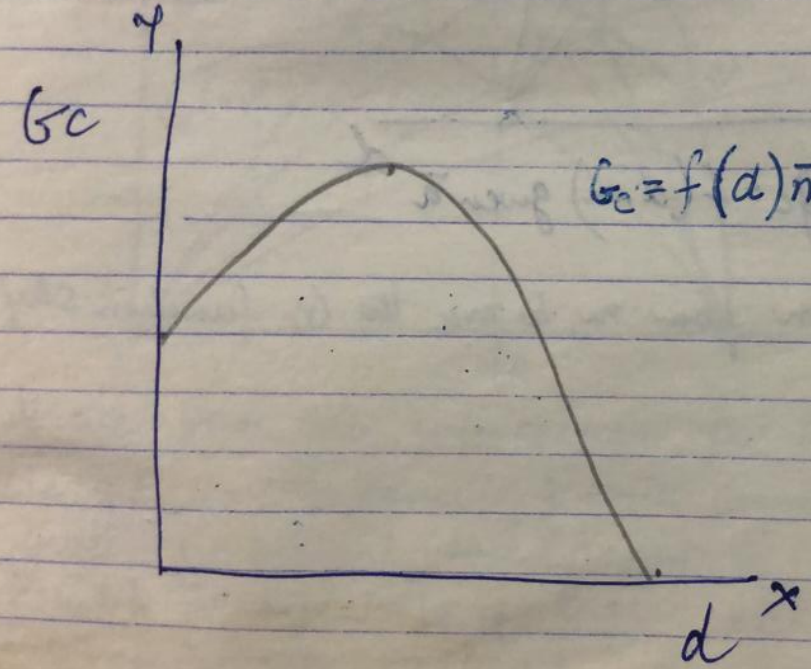
② Curve shifts downwards as m rises ($m_1 < m_2 < m_3$). due to -ve rel'p. bet G_D & m.

③ At any given rate of diversification d_0 and m_3 (higher profit). the given rate of demand for is $G_{D_i} = f(d, m_3)$ which slopes positively. but slope declines with increase in T of diversification

④ As m falls the G_D function shifts up

⑤. With given d & demand functions $G_{D_2} \geq G_{D_3}$ the growth rate of demand for prods. of firms rises to G_2 & G_3 respectively.

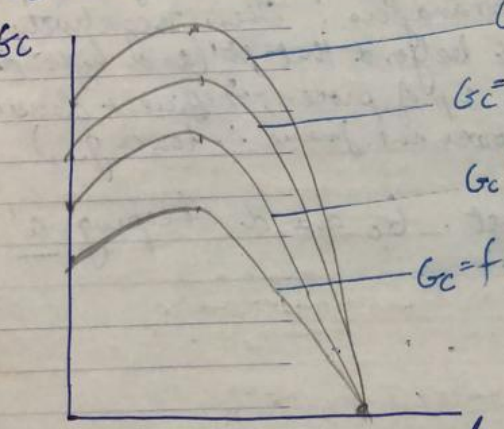
⇒ Relp bet. σ_c and d keeping a' & m constant -



⇒ ① If we allow both d & m to Δ keeping a' constant we get a family of $G_C = f(d,m)$ curves.

② avg. profit is a shift factor of $G_C = f(d)$ curve.

③ higher avg profit, the further from origin the G_C curve will be ($m_1 < m_2 < m_3$).

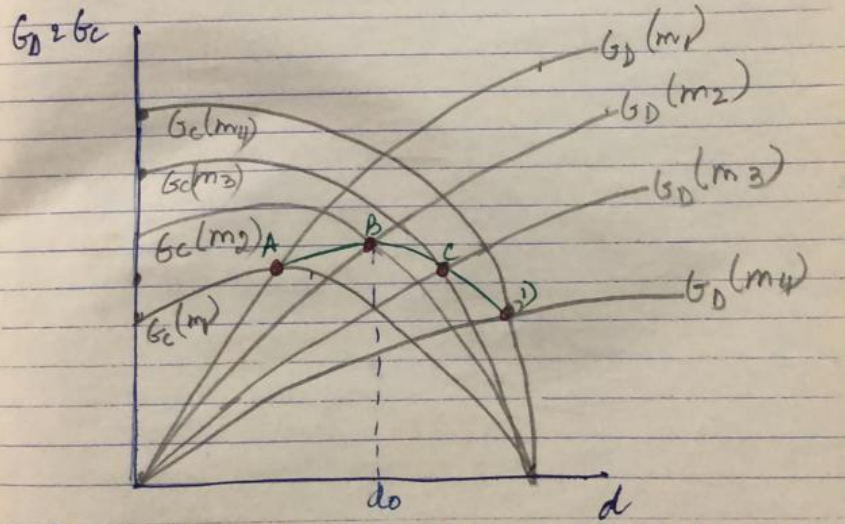


$g_C = f(d,m)$ given $\bar{a}$

→ with ↑ in m from m_1 to m_4, the G_C function shifts up.

Equilibrium of the firm

- where both G_D and G_C are maximised
- to show this we superimpose G_D + G_C functions. curves associated with a given profit rate, for eg. G_C + G_D curves assoc with m_1 intersect at point A. & so on.



- If we join all intersection points A, B, C, D we get the balanced growth curve (BGC) given financial coefficient $\bar{a}$.
- Equilib at highest pt of BGC. ABCD. which is pt B ∴ (E) at B. where rate of d is d_0 and equilib growth rate is $g_0 = g_D = g_C$