

## Accepted Manuscript

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PII: S0304-4068(18)30068-5  
DOI: <https://doi.org/10.1016/j.jmateco.2018.06.006>  
Reference: MATECO 2251

To appear in: *Journal of Mathematical Economics*

Received date: 10 February 2017  
Revised date: 28 March 2018  
Accepted date: 27 June 2018

Please cite this article as: Lahmandi-Ayed R., Laussel D., When do imperfectly competitive firms maximize profits? The lessons from a simple general equilibrium model with shareholders' voting. *Journal of Mathematical Economics* (2018), <https://doi.org/10.1016/j.jmateco.2018.06.006>

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# When Do Imperfectly Competitive Firms Maximize Profits ? The Lessons from A Simple General Equilibrium Model with Shareholders' Voting

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March 28, 2018

## Abstract

We consider a general equilibrium model with vertical preferences, where workers and consumers are differentiated respectively by their sensitivity to effort and their intensity of preference for quality. We consider a monopoly of which the shares are owned by a fraction of the general population. The price is determined through a vote among all the shareholders. We identify necessary and sufficient conditions for (i) an absolute (relative) majority to vote for the profit maximizing price; (ii) an absolute (relative) majority to vote for a different price. We argue that the more concentrated the ownership the more likely it is that the firm charges the profit-maximizing price.

**Keywords:** general equilibrium, profit maximization, vertical preferences, majority vote.

**JEL codes:** D4, D5, L2.

## 1 Introduction

Though its shareholders may have diverging preferences and may pursue very different interests, it is standard in the economic literature to assume that a firm's unique objective is profit maximization. This assumption is perfectly consistent with the heterogeneity of shareholders' objectives as long as the firm is a price-taker. But it has long been recognized (see for instance Marshall, 1940, p. 402) that this ceases to be true when one moves to an imperfectly competitive environment<sup>1</sup>. This has been emphasized among others by Gabszewicz and Vial

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<sup>1</sup>Dierker and Grodal (1999) interestingly remembered that "the decision problem a multi-owner firm has to face presented a major motivation for K. Arrow to develop his theory of social choice".

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