- Association between „business obligation of profit maximization" and "self-interest" is the topic of the paper
    - The problem emerges out of the failure to distinguish the two concepts
    - Explores the justification of profit maximization

- **<u>Common sense says "business ethics is an oxymoron"</u>**
    - Assumption: Individuals act out of self-interest when engaged in a market transaction
        - This sets up a link between "profit-maximization" and "self-interest"
    - Assumption: Moral is a constraint on the individual's pursuit of self-interest
    - Conclusion: Business (profit-maximization) is immoral

- **<u>Distinction of "profit maximization" and "self-interest"</u>**
    - "profit-maximization" is an obligation of the manager to the shareholder and not an expression of "self-interest"

- The assumption that managers need to extend their responsibility to groups other than shareholders in order to do ethical business is wrong. Profit-maximization understood as an obligation instead of an expression of self-interest is a legitimate basis for ethical business. The question is where the obligation for profit-maximization stems from

- **<u>Standard economics assumes that individuals seek to maximize utility</u>**
    - <u>Utility</u>: Consumers seek to maximize satisfaction and suppliers seek to maximize profits
    - This view blurs the line between "self-interest" and "profit-maximization"

- **<u>Comparison of manager, doctor and lawyer</u>**:
    - We expect doctors to value their obligation to patients more than their self-interest. The same goes for managers, whos' obligation to their shareholder supersedes their self-interest.
    - In comparison to the doctor who is working for health, which is regarded as "morally good", the manager works for profit, which isn't regarded as a "good" thing. That's why doctors' actions get automatically justified while managers actions aren't.
    - A lawyer's obligation is to defend their client by any means. Even if the defence of the client is not in the interest of the lawyer it's the morally right thing to do.
    - **Conclusion**: The same which applies for doctors and lawyers applies to managers. The manager should seek profit maximization because that's the purpose of a manager in the system of a private enterprise. The same as a lawyer's purpose in the legal system is to defend her client. The understanding of the purpose of a whole system such as the legal system, medical system, or the private enterprise system justifies the purpose of the lawyer, doctor, manager.

- **<u>The justification for profit: FFT (first fundamental theory of welfare economics), Invisible hand theorem</u>**
    - Through encouragement of competition between suppliers coupled with the competition between buyers controls the price at which goods trade.
    - Under optimal circumstances the competition pushes the price of a good to a point where markets clear.
    - Which means that suppliers aren't left with any leftover goods and consumers are fully satisfied. The overall waste that economy produces has been minimized fully.
    - Efficiency: the less waste produced the more efficient is an economy

  - A perfectly efficient economy is considered Pareto-optimal, which means that it will not be possible to improve any one's condition without worsening someone else's.
  - **Conclusion**: The goal of having profit seeking enterprises is to establish competition. This competition drives prices toward a market-clearing level, allowing society to allocate its' resources most efficiently. Thus the goal of achieving a pareto-optimal economy justifies the managers obligation to maximize profits for their firm. Profits indicate that the balance between "needs satisfied" and "resources consumed" is positive, while losses show that the resources could have been used better.

- **<u>Information Symmetry. Friedmann: Firms should engage in economy without deception or fraud.</u>**
  - Lying to your customers about your product distorts the demand for the product. This generates inefficiencies in the economy (Example: goulash capitalism)
  - In order to have a perfectly efficient market a set of conditions must be met, which are called "pareto conditions". One such condition is information symmetry.
  - When a "pareto condition" is not satisfied the result will be a disturbance on the equilibrium (between "needs satisfied" and "resources consumed") of the market, which is called "market failure".
  - There must be a constraint on managers to not exploit market imperfections in order to gain profit, so that the market doesn't get pareto-suboptimal.
  - This is best done by moral constraints instead of governmental intervention, because governmental intervention is another pareto-suboptimal allocation of resources.
  - Friedmann says that deception should be prohibited because it doesn't satisfy some pareto conditions. The problem is that Friedmann condones the violation of some pareto conditions while he condemns others.

- **<u>Moral Code</u>**
  - The MFA can be used to derive a robust moral code from it
  - The cost of production must be the same as the social cost
  - Other restrictions: "minimize negative externalities, compete only through price and quality, reduce information asymmetries, do not exploit diffusion of ownership, avoid erecting barriers to entry, do not use cross-subsidization to eliminate competitors, do not oppose regulation aimed at correcting market imperfections, do not seek tariffs or other protectionist measures, treat price levels as exogenously determined, do not engage in opportunistic behaviour toward customers or other firm
  - Abiding to those rules unilaterally would be devastating for a firm, so there could be an agreement for example to reduce the costs for advertisements a few percent each year. (Similar to an arms reduction agreement between nations)
- **<u>Second-best theorem</u>**
  - Second-best theorem says, that if one Pareto condition is violated the overall efficiency of the market would be better off with more Pareto conditions being violated. E.g., if there is one trade barrier, then minimizing the number of trade barriers wouldn't produce the best outcome, we may be better off imposing other trade barriers.
  - The line of reasoning from natural sciences can't be analogically used for business ethics. The line of reasoning goes: Euclidean geometry or any other ideal model isn't realistic, but the closer the reality is to those models the more reality behaves like those models. So, some minor differences between a model and reality don't matter for the overall use of the model to predict reality.

- Conclusion: General equilibrium models aren't relevant to the normative evaluation of actual economies. We cannot just adopt the best competitive economic strategy and hope that the invisible hand does the rest.

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