Executive Summary

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The client studied the case of Cal who brought some changes to his business policy operating ExxonMobil and faced setbacks. Cal was selling fuel on $2.759 per gallon and he was getting $146 daily profit against every gallon. After taking the advice of his educated son that marginal cost (MC) is equal to marginal revenue (MR) and he should make more investments to earn more he increased the amount of the product and noticed that he was going in loss (Fullerton, 1991). He was told by his son to maximize the profit, but the strategy he used proved counter-productive.

 The client analyzed that the market price fluctuated and fell from $2.759 when he was selling 3300 gallons per day to $2.619 when the sale rose to 9200 gallons per day, but his cost per gallon remained static at $2.649 due to unknown reasons (Baumol, & Bradford, 1970). Consequently, his profit fell from $ 146.00 per day when he was selling merely 3300 gallons per day to minus $526.00 when the sale rose to remarkable amount of 9200 gallons. The researchers analyzed that the ideal price for Cal to maximize the profits was $2.749 per gallon.

William Baumol argues in his article *Optimal departures from marginal cost pricing. The American Economic Review* that petroleum business is one of the businesses which have no certainty in the terms of price and a successful businessman is the one who molds the business strategy according to the demand of the market (Machlup, 1946). Cal regarded the researcher’s analysis and decreased the price from $2.759 per gallon to $2.739 per gallon. Moreover, he decreased the amount from 9200 gallons to 4400 gallons per day. Fortunately, he started getting $1325.2 per day profit. Being impressed by the method he decreased the price to $2.729 per gallon and the profit rose to $1420 per day.

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