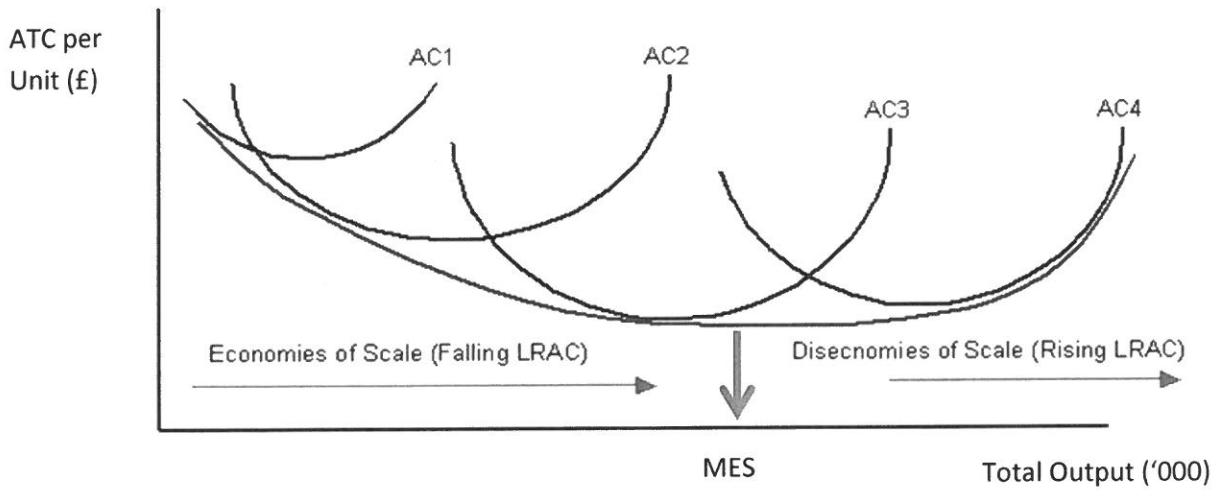


Economies & Diseconomies of Scale



ECONOMIES OF SCALE		DISECONOMIES OF SCALE	
<u>Internal</u>		<u>Internal</u>	
ECONOMIES OF SCALE		DISECONOMIES OF SCALE	
<u>External</u>		<u>External</u>	

MATHS MOMENT

$$1 + 1 = 2$$

Calculate the average costs for the following levels of output. What evidence can you find of economies and diseconomies of scale?

Output	Total costs (£)	Unit costs (£)
100	2000	
200	3000	
300	4000	
400	5000	
500	6800	
600	9000	

Table 6.2 *Economies and diseconomies of scale*

Maths Moments answer:

Extension question: Why might the diseconomies have occurred?

APPLICATION IN ACTION

Whether or not firms grow in size depends in part on the existence of economies of scale. In industries such as telecommunications, steel, brewing, pharmaceuticals and car manufacturing the economies of scale are huge, providing a major driving force towards large-scale production. As a result, these industries are dominated by a few big firms. When it comes to sectors such as plumbing, hairdressing, taxis and florists, such economies of scale do not exist so there are lots of small firms competing in different regions

Key terms

The **unit cost** is the average cost of one unit. If total costs are £100 and output is 20 units the unit cost is £5.

Economies of scale occur when the cost per unit falls as output expands.

Diseconomies of scale occur when the cost per unit increases as output expands.

POINTS TO PONDER

Richard Branson, the founder of Virgin, has made it a deliberate policy to keep his different enterprises small whenever he can. When any of his businesses reach a certain size, he tends to break them up and form a new organisation. According to Branson, small is definitely beautiful!