- **Specialization and division of labour**:
- In large scale operations workers can do more specific tasks.
- With little training they can become very proficient in their task, this enables greater efficiency. A good example is an assembly line with many different jobs.
- **Marketing:**
- A large firm can spread its advertising and marketing budget over a large output.
- **Financial economies**.
- A bigger firm can get a better rate of interest than small firms.
- **External economies of scale (H/W):**
- This occurs when firms benefit from the whole industry getting bigger.
- E.g. if the industry gets bigger all firms will benefit from better infrastructure, access to specialized labour and good supply networks.
- This occurs when ***Average Costs start to rise with increased output.***
- Therefore there will be **decreasing returns to scale**
- Diseconomies of scale can occur for the following reasons:
- 1. Poor communication in a large firm [managerial]
- 2. Alienation: Working in a highly specialized assembly line can be very boring, therefore workers become de motivated
- 3. Lack of control: when there is a large number of workers it is easier to escape without working very hard
- **Internal** economies/diseconomies of scale – causes a **movement along** the LRAC
- **External** economies/diseconomies of scale – causes a **shift** of the LRAC
- **Long Run Cost Curves**
- The long run cost curves are u shaped for different reasons. It is due to economies of scale and diseconomies of scale.
- If a firm has high fixed costs, increasing output will lead to lower average costs.
- However, after a certain output, a firm may experience diseconomies of scale.
- This occurs where increased output leads to higher average costs.
- For example, in a big firm it is more difficult to communicate and coordinate workers.
- **Refer to previous Diagram**
- **EV:** Note however, not all firms will experience diseconomies of scale. ***It is possible the LRAC could just be downward sloping.***
- The economies & diseconomies of scale outlined earlier are examples of **internal economies & diseconomies of scale** –
- **Internal economies & diseconomies of scale** occur due to **growth** in the **scale of production within** an **individual firm**.
- **External economies & diseconomies of scale** are the result of **growth within the industry** in which a firm operates.
- These cause the **LRAC curve to shift down (external economies of scale)** or to **shift upwards (external diseconomies of scale).**