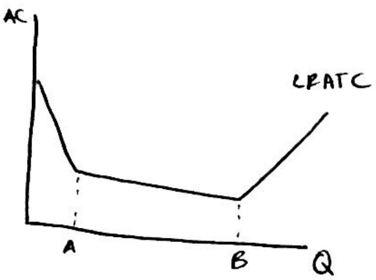
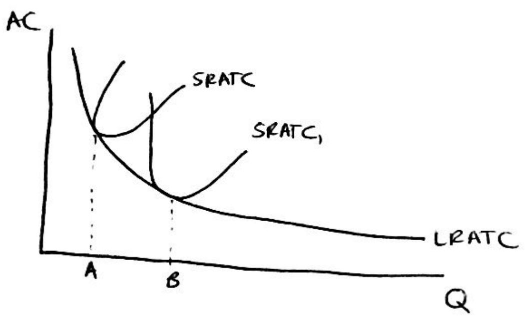
MES :



- At A : reached MES
- firms who are unable to reach MES are not competitive
- Below A → C↑ ∴ uncompetitive with larger firms whose C are lower as they have reached MES
- the Q to reach MES depend on nature of industry and costs structure
  When FC are large compared to VC , ↑Q → ↓AC

eg. Market size allowed to absorb £200,000 worth of goods and services and MES = £50,000 then 4 plants could operate at MES

Relationship between SR and LR costs :



- A is lowest point of SRATC . If firm ↑Q rapidly to B , its unit costs will ↑ up the SRATC as it overworks its fixed factors and departs from optimal output .
  If firm ↑ scale of production , as fixed factors ↑ and used , firm moves down SRATC until reaches LRATC at B where it achieves productive efficiency.
- small firms may decide expansion is not an option and remain the same size and overwork their fixed factors
  Reasons : - lack of available finance
  - fear market growth may be temporary
  ∴ these firms are not ↓C to lowest level but ignore this as long as profits are adequate .