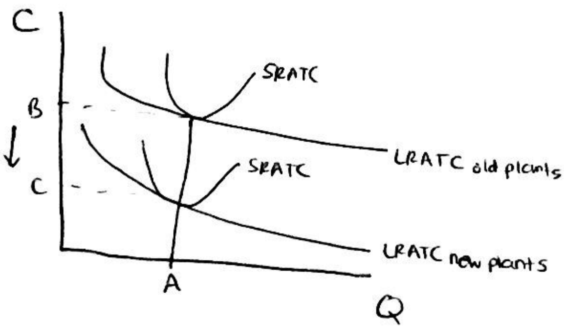
- efficiency → combination of two firms lead to lower C than they can achieve as separate firms
- integration undertaken more to fulfil ambitions of managers rather than achieving efficiency
- managers who have taken over another firm gain prestige and ↑ income as company size and market share ↑.

Firms and technological change:

1) More Q produced with same input
2) existing Q undergo improvements in quality
3) new products become available

- enhances production / consumption possibilities by ↑ productivity of capital → improves quality of life compared to previous generations.
- invention : new idea that can be patented
- innovation : putting of an invention into commercial use. Process of converting ideas into better ways of doing business or into new improved product
- innovation → ↓ C → new products, processes and production techniques
  ↓
  ~~established in~~ dynamic efficiency
- technical progress has to be embodied in a new capital equipment, human skills or new intermediate products ∴ there are limits to speed of changes as new equipment comes on stream only at rate of gross investment
- innovation takes time to become the norm in all industries especially if they require high levels investment



- BC unit saving costs
- new plants able to earn profits and built immediately → shift industry S curve right → P ↓
- firms that have not invested in new plant find it hard to compete as their C will be higher than firms with innovation
- Some industries experience virtually constant technical change where new innovation continually ↓ C.

- firms in such industries experience short life cycles of their products. Explanation of high Prices: shorter life cycles, firms recoup as much of their initial investment C as rapidly before imitators enter and ↓ P. Original innovators will discontinue producing and concentrate on newer ~~products~~ technology. Less known firms concentrate on older models until no longer profitable and discontinued.