- Throughout the range of long run ATC over which the firm enjoys economies of scale, it experiences increasing returns to scale

After a certain point, further reductions in average cost becomes difficult and a firms eventually achieves minimum efficient scale (MES)

- Size at which a firm achieves it lowest possible per-unit cost of production (no further cost advantages)

- Over the range of output during which ATC remains constant, the firm experiences constant returns to scale - increase in input leads to a proportionally identical increase in output

A very large firm brings experiencing inefficiencies that cause average costs to rise as the firm grows

- Diseconomies of scale that have led to rising average costs and decrease competitiveness as firms grow larger
    - Any increase in long run average total cost that comes about when a firm alters all of its factors of production in order to increase its scale of output
    - Leads to firm experiencing decreasing returns to scale

May include factors such as

- Communication inefficiencies - management will find it harder to control and coordinate --> leads to inefficiencies and increase in unit cost
- Alienation and loss of identity --> work less hard and become less productive
- Office politics - managers may focus on achieving their personal goals that the best interest of the firm
- Increased regulation - more likely to be regulated by government agencies

<u>Summary</u>:

- SR cost curves are U-shaped because of law of diminishing returns
- LR cost curves are U-shaped because of economies and diseconomies of scale

7.4 Revenues: total, average and marginal revenue

Revenue is the income a firms receives from the sales of its output

- Firms seek to maximize profit, not revenue

Revenues for a perfectly competitive firm

Perfectly competitive firm- one that competes in a market with a very large number of firms each producing an identical product, and each firm's output making up a very tiny fraction of the total market supply -- this makes it impossible for a single firm to affect the market price by increasing or decreasing its output unilaterally

Firms - price takers

AR = revenue per unit of output = price = MR

Fig 7.9 in pg 164

TR = P x Q