



Economies and Diseconomies Of Scale

Chapter 19



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You will learn



How can business benefit with economies of scale?

How many types of economies of scales can we find?

What's does the term "diseconomies of scale" mean?

What are economies of scale

When a business increases its scale of operations and the process becomes more efficient, it has achieved economies of scale.

*Decrease in
cost of
production*



*Improvement
in production
efficiency*

INTERNAL ECONOMIES OF SCALE

Purchasing



- *Buying in bulk (large quantities)*
- *Reduces the unit cost*
- *Advantage over other small businesses which buy in small amounts*

buying
in bulk



reduces
unit costs



lower
average costs

Technical



- Apply division of labour
- specialization of tasks
- higher output (bigger units of production)
- reduce average costs

division
of labour

experts in
tasks

higher
output

reduce
average costs

Financial



- *larger businesses are able to borrow more money from the bank*
- *there are less risks*
- *they receive larger loans at cheaper rate*
- *they are then able to invest in their business more*

able to borrow
money from
bank



less
risk



larger loans
at cheaper
rate



invest
more

Managerial



- *Larger businesses are able to pay for specialists:*
 - *increase efficiency*

big
business



more
money



employ
specialists

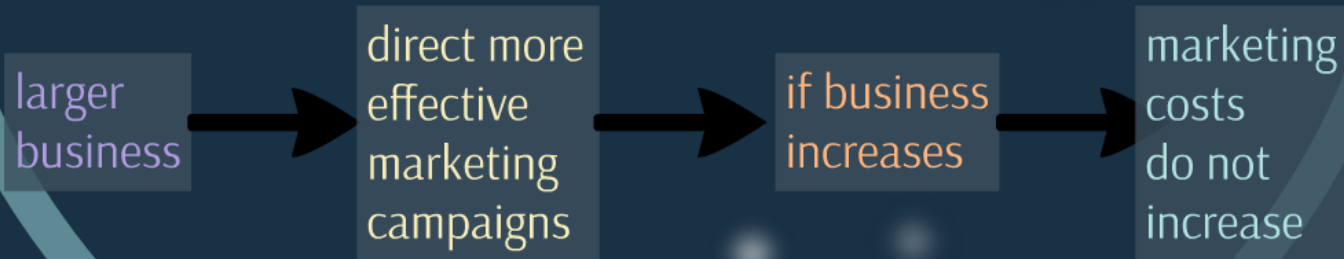


higher
efficiency

Marketing



- *Larger businesses can direct more effective marketing campaigns*
- *Marketing costs do not increase when the businesses increases*



Risk Bearing



*Larger businesses can afford to produce a bigger range of products
- which means they spread the risk of one product failing*

larger
business



bigger range
of products



spread risks of
one product failing

EXTERNAL ECONOMIES OF SCALE

**benefits the business gains from other people
expanding (or the industry expanding)**

ADVANTAGES OF EXTERNAL ECONOMIES OF SCALE

- *supply of skilled labour*
- *infrastructure*
- *ancillary and commercial services*
- *co-operation*

DISECONOMIES OF SCALE

the factors that cause the average costs to increase while the business grows as well

REASONS FOR DISECONOMIES OF SCALE

- *Bureaucracy - poor communication*
- *Labour relations*
- *Control and co-ordination*



EXAM STYLE QUESTION

With reference to Ford, Evaluate how Ford can benefit from growing/ expanding and achieving economies of scale.



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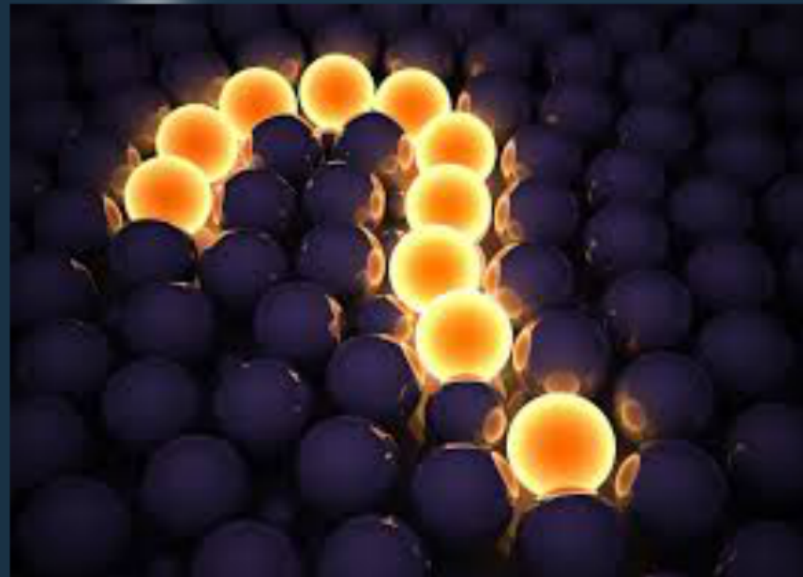
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Any question?



Homework

Chapter review - Sensations
Page 208, text book

separate paper