**MBA- I semester, paper- Managerial Economics, MB 102, TOPIC -The benefits of Economies of scale**

**The benefits of Economies of scale**-large-scale business

Economies of scale are the cost advantage from business expansion. As some firms grow in size their unit costs begin to fall because of:

- purchasing economies - when large businesses often receive a discount because they are buying in bulk
- marketing economies - from spreading the fixed cost of promotion over a larger level of output
- administrative economies - from spreading the fixed cost of management staff and IT systems over a larger level of output
- research and development economies - from spreading the fixed costs of developing new or improved products over a larger level of output.

Internal Versus External Economies of Scale

As mentioned above, there are two different types of economies of scale. Internal economies are borne from within the company. External ones are based on external factors.

Internal economies of scale happen when a company cuts costs internally, so they're unique to that particular firm. This may be the result of the sheer size of a company or because of decisions from the firm's management. Larger companies may be able to achieve internal economies of scale—lowering their costs and raising their production levels—because they can buy resources in bulk, have a patent or special technology, or because they can access more capital.

External economies of scale, on the other hand, are achieved because of external factors, or factors that affect an entire industry. That means no one company controls costs on its own. These occur when there is a highly-skilled labour pool, subsidies and/or tax reductions, and partnerships and joint ventures—anything that can cut down on costs to many companies in a specific industry.

There are benefits and drawbacks in increasing the size of operation of a business. The cost advantage is known as economies of scale. The cost disadvantage is known as diseconomies of scale.