MBA- I semester, paper- Managerial Economics, MB 102, TOPIC- Economies of scale concept.

Economies of scale-

Economies of scale refer to the cost advantage experienced by a firm when it increases its level of output. The advantage arises due to the inverse relationship between per-unit fixed cost and the quantity produced. The greater the quantity of output produced, the lower the per unit fixed cost.

Economies of scale also result in a fall in average variable cost (average non-fixed costs) with an increase in output. This is brought about by operational efficiencies and synergies as a result of an increase in the scale of production.

Understanding Economies of Scale

Economies of scale are an important concept for any business in any industry and represent the cost-savings and competitive advantages larger businesses have over smaller ones.

Most consumers don't understand why a smaller business charges more for a similar product sold by a larger company. That's because the cost per unit depends on how much the company produces. Larger companies are able to produce more by spreading the cost of production over a larger amount of goods. An industry may also be able to dictate the cost of a product if there are a number of different companies producing similar goods within that industry.