MASTER OF BUSINESS ADMINISTRATION

M.B.A SEMESTER: I (SESSION: 2020-2022)

Department of Management

MMHA&PU

PAPER-MANAGERIAL ECONOMICS, PAPER CODE-MB 102

TOPIC- Constant Returns to Scale

Constant Returns to Scale

Constant returns to scale or constant cost refers to the production situation in which output increases exactly in the same proportion in which factors of production are increased. In simple terms, if factors of production are doubled output will also be doubled.

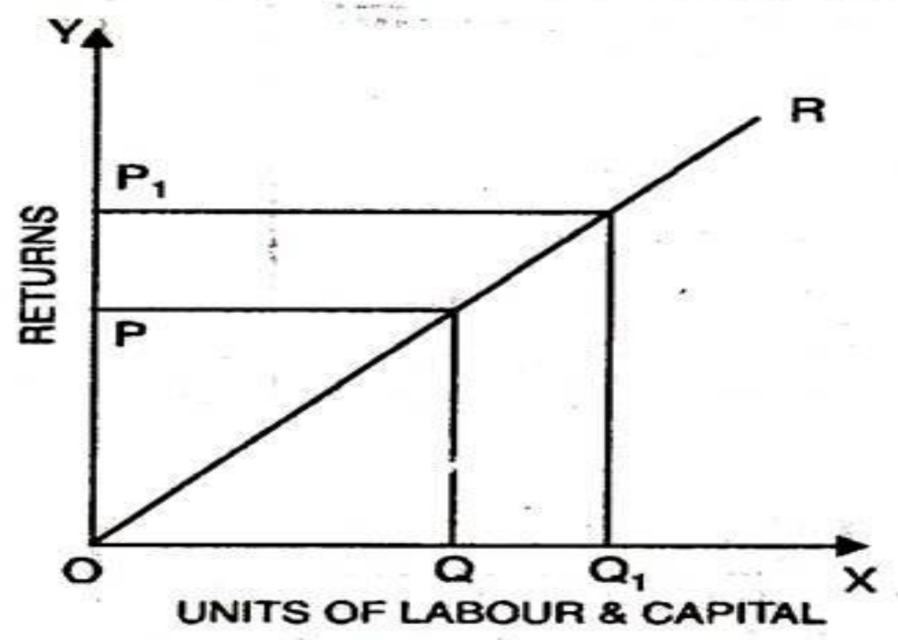

Fig. 10.

In this case internal and external economies are exactly equal to internal and external diseconomies. This situation arises when after reaching a certain level of production, economies of scale are balanced by diseconomies of scale. This is known as homogeneous production function. Cobb-Douglas linear homogenous production function is a good example of this kind. This is shown in diagram 10. In figure 10, we see that increase in factors of production i.e., labour and capital are equal to the proportion of output increase. Therefore, the result is constant returns to scale.

BY

DR. FAIYAZ HUSSAIN

VISITING FACULTY

Department of Management

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