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- Diminishing Returns to Scale

Diminishing (Decreasing) Returns to Scale:

Diminishing returns or increasing costs refer to that production situation, where if all the factors of production are increased in a given proportion, output increases in a smaller proportion. It means, if inputs are doubled, output will be less than doubled. If 20 percent increase in labour and capital is followed by 10 percent increase in output, then it is an instance of diminishing returns to scale.

The main cause of the operation of diminishing returns to scale is that internal and external economies are less than internal and external diseconomies. It is clear from diagram.

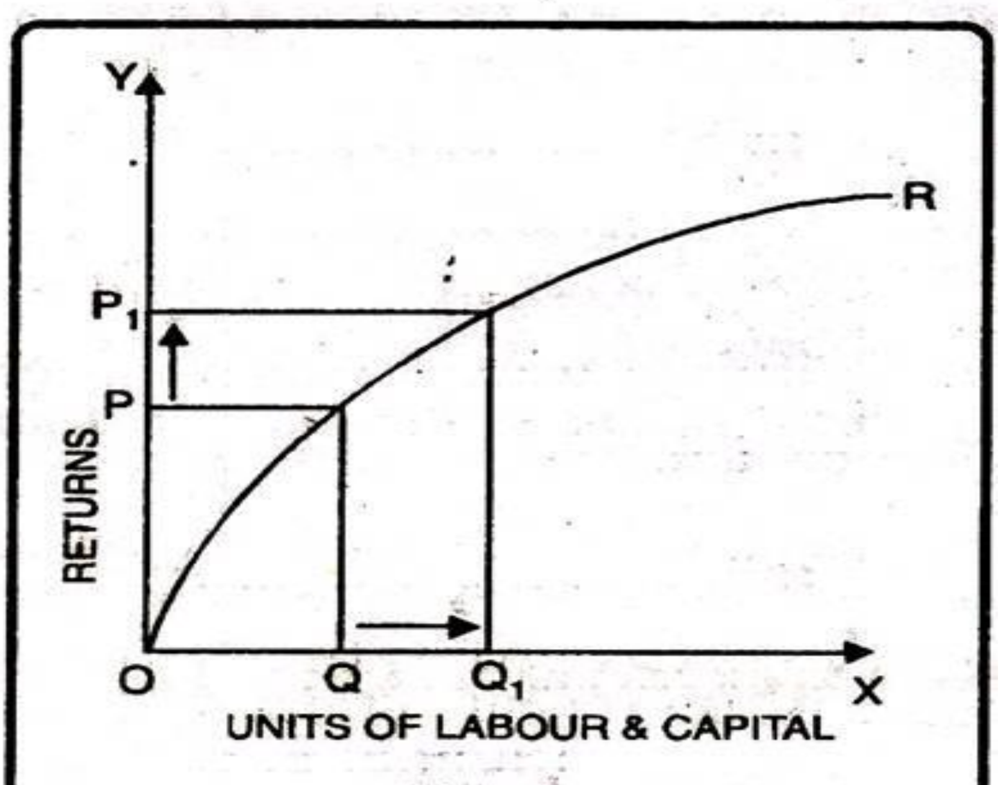

Fig. 9.

In this diagram 9, diminishing returns to scale has been shown. On OX axis, labour and capital are given while on OY axis, output. When factors of production increase from Q to Q_1 (more quantity) but as a result increase in output, i.e., P to P_1 is less. We see that increase in factors of production is more and increase in production is comparatively less, thus diminishing returns to scale apply.

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