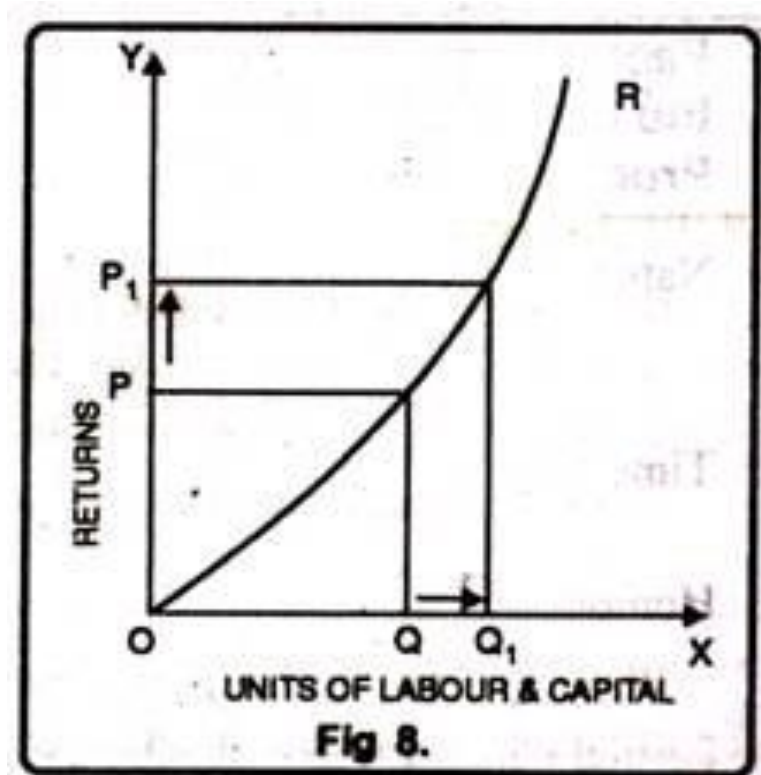


MBA- I semester, paper- Managerial Economics, MB 102, TOPIC- Increasing Returns to Scale:

1. Increasing Returns to Scale:

Increasing returns to scale or diminishing cost refers to a situation when all factors of production are increased, output increases at a higher rate. It means if all inputs are doubled, output will also increase at the faster rate than double. Hence, it is said to be increasing returns to scale. This increase is due to many reasons like division external economies of scale. Increasing returns to scale can be illustrated with the help of a diagram.



In figure, OX axis represents increase in labour and capital while OY axis shows increase in output. When labour and capital increases from Q to Q₁, output also increases from P to P₁ which is higher than the factors of production i.e., labour and capital.