Webnote 2116
Syllabus: Items 78

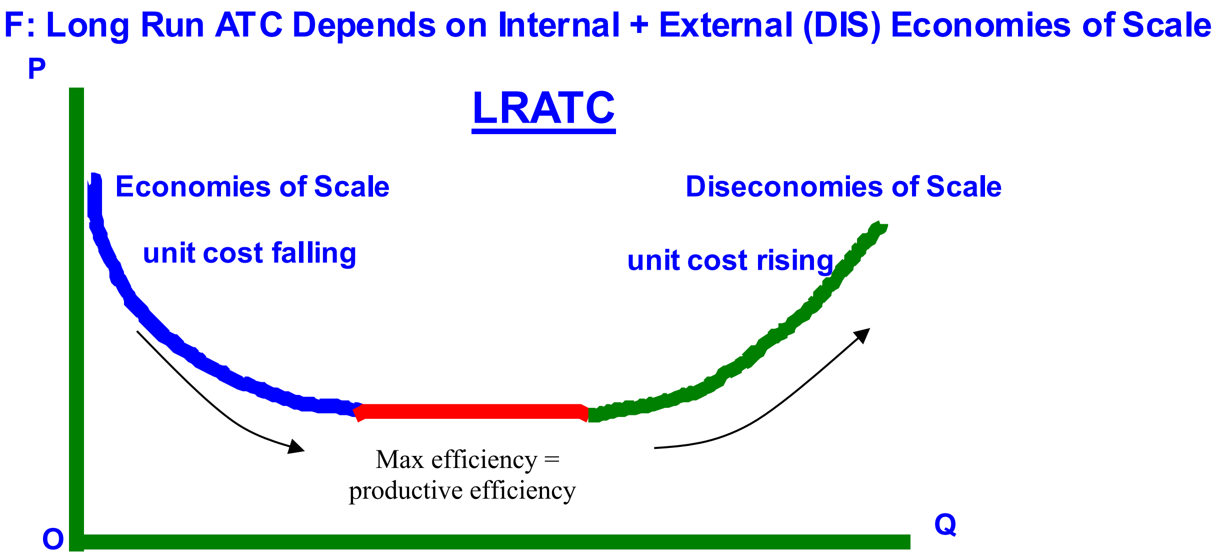
SYLLABUS REFERENCE 2.2 HL EXTENSION:

Cost Curves: Short Run and Long Run Average Total Cost

SHORT RUN AND LONG RUN

- Short run = at least one FoP is fixed. This allows for the existence of diminishing marginal returns of scale – see webnote 211 on diminishing marginal returns.
- Long run = all factors variable and therefore the firm can plan the ideal scale/size of operation

SYLLABUS REFERENCE 2.11 HL EXTENSION Item 78



Note:
The rise from a to b on diagram (e) above is caused by diminishing marginal returns. See webnote 211. This indicates inefficiency in the short run. Too many variable factors are being used with one fixed factor likely to be capital.

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Internal Economies of Scale

1. **Technical**
2. **Marketing**
3. **Managerial**
4. **Financial**
5. **R and D**

Internal Diseconomies of Scale

1. **Managerial**
2. **Technological**
3. **Labour**

External Economies of Scale

1. **Education and training**
2. **Infrastructure**
3. **Trade Journals/ publications / seminars**
4. **R and D**
5. **Supply firms may relocate**

External Diseconomies of Scale

1. **Labour shortages**
2. **Raw material shortages**
3. **Poor infrastructure**
4. **Government regulation / legislation**