Economics

Student’s Name

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**Long-run average cost**

Generally, it is prudent for the management of a company to determine both short-run and long-run average price based on production levels. Typically, in short-run, the average total cost has a U shape because the initial average cost of production is a fixed factor thus the average cost curve will fall at the initial till minimum then start to rise (Leitner, 2011). Whereas in long-run, the average cost curve signifies the least attainable average production cost. Therefore, firms in short-run always increase their level of production.

**Description of economies of scale and diseconomies of scale**

Economies of scale refer to the deterioration in the long-run average cost of production due to increase in size and operation of a firm (Leitner, 2011). Diseconomies of scale refer to the increase in average production cost as a result of a decrease in size and production levels of a firm.

**Determinants of economies and diseconomies of scale**

Usually, various factors lead to either economies or diseconomies of range for a firm. Some of these determinants are the cost of raw materials, cost of labor, technological level and cost of capital (Carlino, 2012). For instance, a decrease in the cost of these factors contribute to economies of scale because a company will spend less during production. However, an increase in the value of these determinants contributes to diseconomies of scale because a firm will consume more resources.

**Cause of economies of scale for Walmart**

Walmart is one of the best-performing companies in the industry it operates. The management of the company has implemented the high use of technology to attain economies of scale in its production process (Carlino, 2012). The use of appropriate technology has enabled the company to reduce its cost of production due to the efficiency and accuracy of the machines used.

**Importance of economies of scale to help a business entity compete in an industry**

Economies of scale benefit a company to decrease its cost of production due to mass production. As such, the firm will produce a quality product at a low cost which will make a firm to charge moderate prices. Consequently, this will help a company to gain a competitive advantage in the sector it operates.

References

Carlino, G. A. (2012). *Economies of scale in manufacturing location: Theory and measure*. Boston, MA: Springer US.

Leitner, M. (2011). *Economies of scale in semiconductor manufacturing*. Place of publication not identified: Grin Verlag.