DB7: Economies and diseconomies of scale Options Menu: Forum

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Economies have an impact on overall business irrespective of their size. However larger business gets affected less than the small business. When the economy works firmly then business also expand while with the fall in the economy, the business also faces crisis. This indicates the direct relationship between business and economy.

**Economies and Diseconomies of Scale:**

The situation where the cost of product per unit of production decreases with the increase in the output is known as economies of scale. In other words, economies of the scale represent the inverse relationship between fixed price and produced quantity. For instance, when the labor of the firm is efficient or gets specialized in a specific task then the productivity of the firm increases with the increase in efficiency of the labor. It can be caused by the increase in specialization with the increase in firm size1. The main factors which increase economies of scales include; efficient use of equipment, specialization of resources, maximum use of by-products, the decrease in unit cost of inputs, an increase in auxiliary facilities.

The situation where the cost of product per unit of production increases with the increase in output is known as diseconomies of scale. For instance, when labor or worker of the firm does not get motivation or face any other issue it leads to the diseconomy of the scale. It results in the low productivity of the firms which is measured through output per labor. The main factors causing diseconomies of scale includes resources competition and the role of management for decision making.

**Auto industry:**

In an auto industry the best example to explain the diseconomies of scale is the production of vehicles for every region. It means that manufacturing a huge amount of vehicle which can add cost without necessarily subsidizing much profit.

Automobile industry required the companies to afford all the equipment and its maximum use to produce a sufficient amount of product. Firms who successfully spread the cost per unit over a large amount of vehicle face economies of scale.

**References**

1. Economies and Diseconomies of Scale | Production. *Econ Discuss*. January 2017. http://www.economicsdiscussion.net/production/economies-and-diseconomies-of-scale-production/25507. Accessed March 30, 2019.