Economies of Scale, LRAC & Returns to Scale

Multiple-Choice Questions

GCE A-LEVEL ECONOMICS

Diseconomies of scale occur when

A average cost falls due to the growth of a firm.

B average cost rises due to a firm reducing its output.

C total cost rises due to the growth of a firm.

D average cost rises due to the growth of a firm.

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The growth of car manufacturing around Birmingham led to firms producing components for cars. As a result, car manufacturing firms experienced a fall in their average cost of production. This is an example of

A a financial economy of scale.

B a marketing economy of scale.

C a technical economy of scale.

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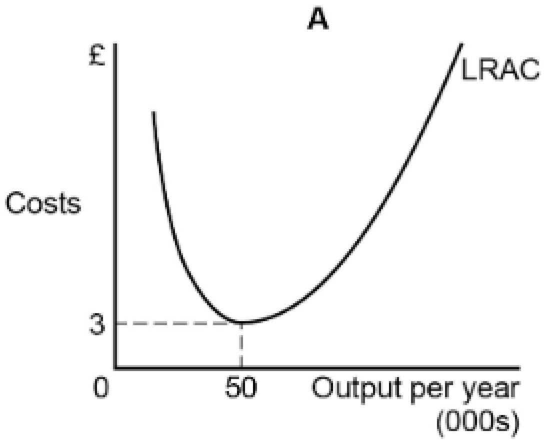
The diagrams below show four possible long run average cost curves (LRAC) for a firm operating in a market where the annual sales are 400 000 units per year.

All other things being equal, which one of the cost curves, **A, B, C or D**, is most likely to enable the firm to achieve monopoly power in the market for its product?

A



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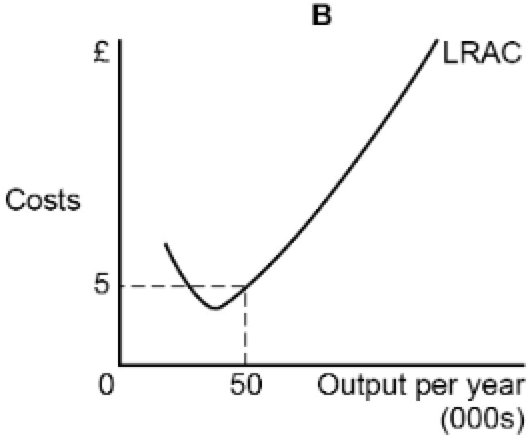

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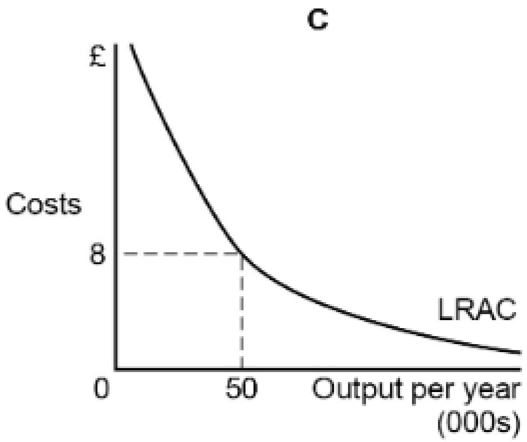

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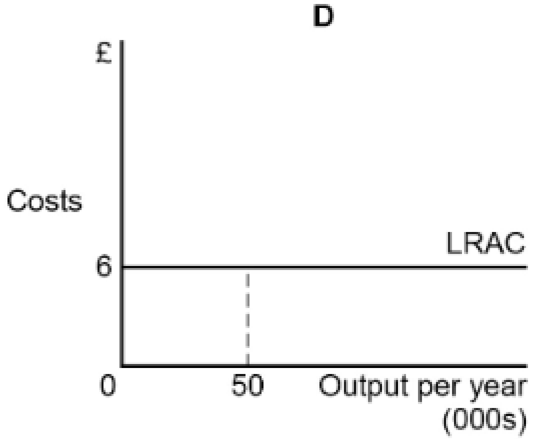

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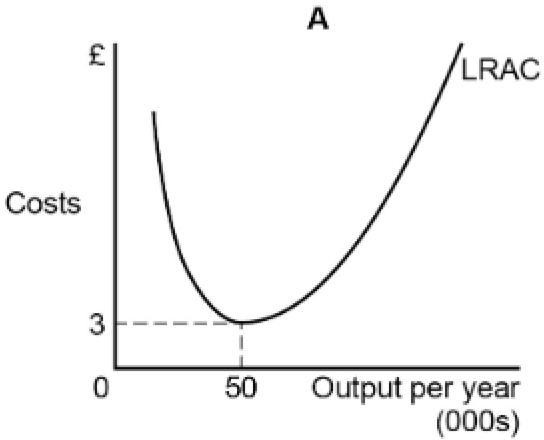

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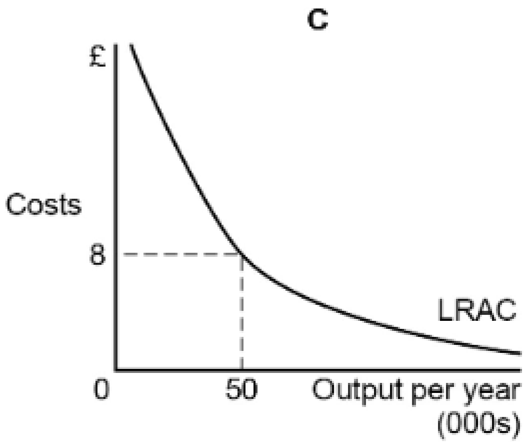
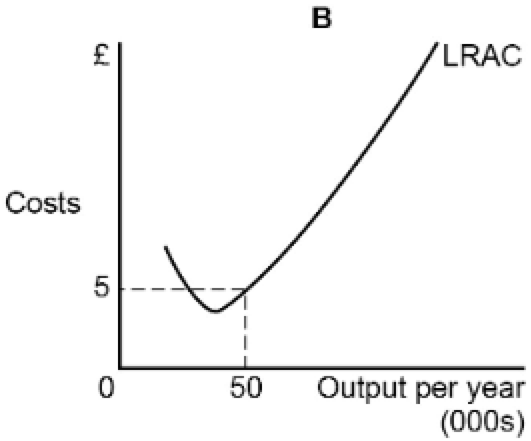
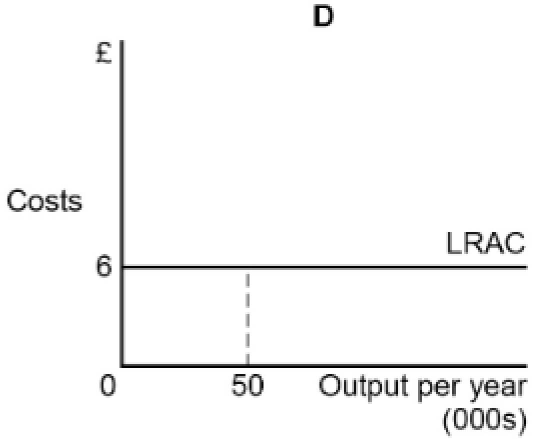


B



D



A2 Questions

A firm employs three factors of production: capital, land and labour. The table below shows how the firm's output is affected by changing the amount employed of these factor inputs.

Units of output	Units of capital	Units of land	Labour (Number of workers)
500	20	40	60
1000	80	160	240
2000	140	280	420
3000	210	420	630
4000	300	580	860

The firm experiences constant returns to scale when it increases its output from

A 500 to 1000 units.

B 1000 to 2000 units.

C 2000 to 3000 units.

D 3000 to 4000 units.

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A firm benefits from significant and persistent economies of scale as it increases output. Which one of the following is the most likely consequence as it grows in size?

The firm's

A ability to set its own prices will increase.

B long-run average cost curve will become 'U' shaped.

C increasing profitability will attract many new entrants.

D total cost of production will decrease.

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