

Costs

1. Fixed Costs

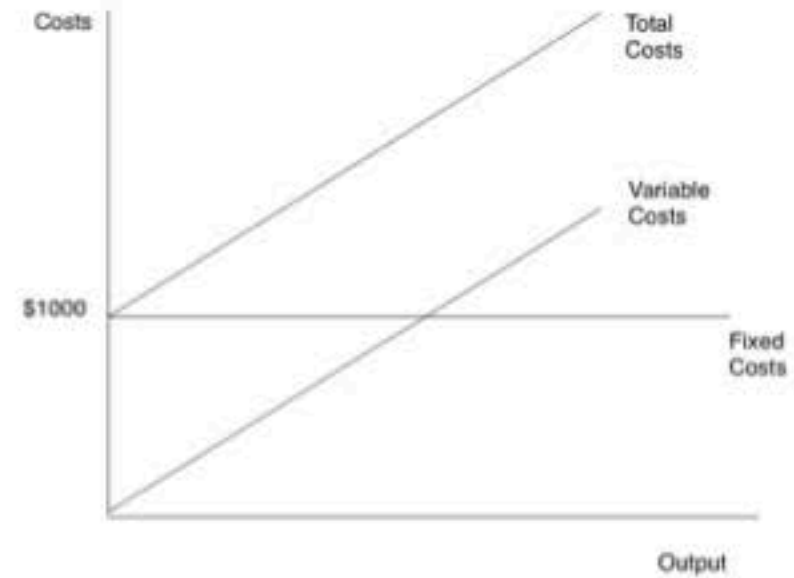
1. Costs that do not change with output
2. Includes opportunity costs like cost of owner, eg owner could have had a salary of \$100 if worked somewhere else, then add \$100 to costs
3. High fixed costs -> you want lots of output

2. Variable Costs

1. Costs that change with amount of output

3. Total Costs

1. Fixed Costs + Variable Costs



Profit

1. Abnormal Profit

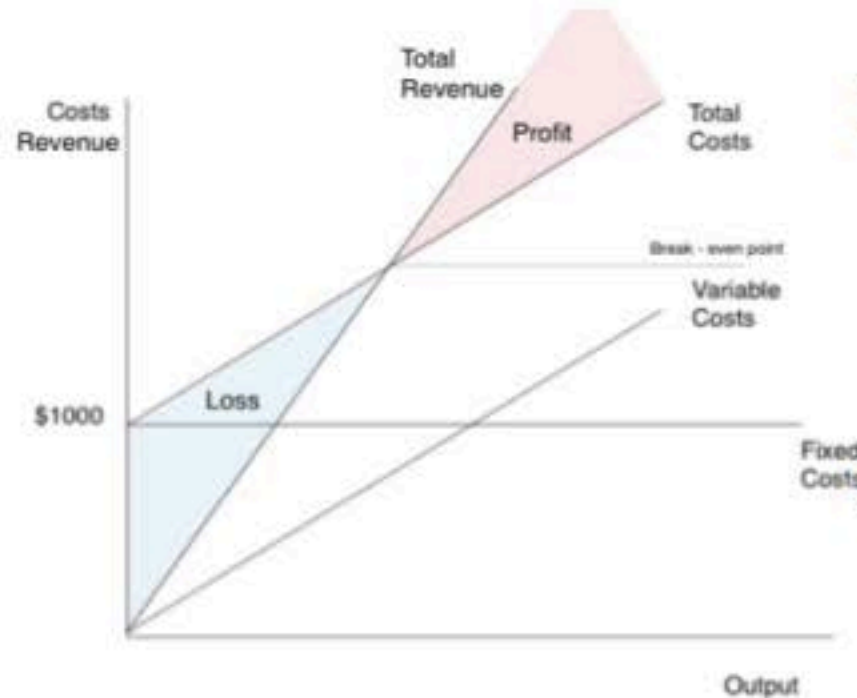
1. $TR > TC$

2. Normal Profit

1. $TR = TC$

3. Losses

1. $TR < TC$



How to Increase Revenue

1. Supply

1. Lower price if PED is elastic, people are sensitive to change
 - a. Increase supply
2. Increase price if PED is inelastic, people are not sensitive to change
 - a. Constrict supply

2. Demand

1. Advertising
2. Increases demand, increases both price and quantity, so increases revenue

(Dis)Economies of Scale

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Economies of Scale

Internal

External

1. **Purchasing**
 1. buying in bulk is cheaper
2. **Financial**
 1. banks loan money at a lower interest rate
3. **Marketing**
 1. more influence on market, supply chain
 2. spend less on advertising
4. **Technical**
 1. More expertise : specialisation
 2. More capital : better machinery
5. **Risk Bearing**
 1. Can diversify through conglomerates
 2. Back ups

1. **Infrastructure**
 1. government creates essential things like roads, communication lines etc. near companies
2. **Ancillary**
 1. Other small firms increase market size

Diseconomies of Scale

When a firm gets too big, the advantages of EOS are nullified and worse.

Internal

External

- | | |
|---|--|
| <ol style="list-style-type: none"> 1. Ineffective management <ol style="list-style-type: none"> 1. More complex 2. Slower in responding to changes in market change 3. Communication problems[4. Motivation problems | <ol style="list-style-type: none"> 1. Increased journey times 2. Increased competition |
|---|--|

Advantages	Disadvantages
None	<ol style="list-style-type: none"> 1. Higher average cost 2. More inefficiency

Advantages	Disadvantages
<ol style="list-style-type: none"> 1. Lower average cost 2. barriers to entry 3. more market share, monopoly 	Can lead to diseconomies of scale

ECONOMIES OF SCALE GRAPH

