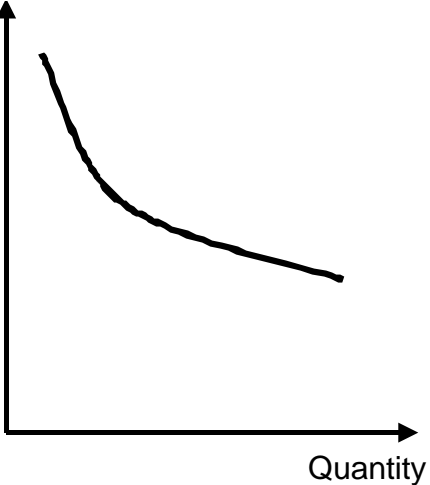
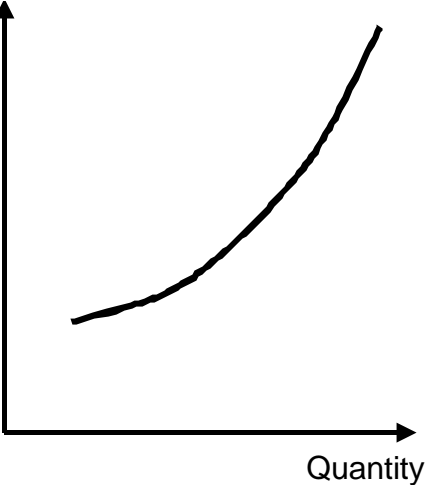
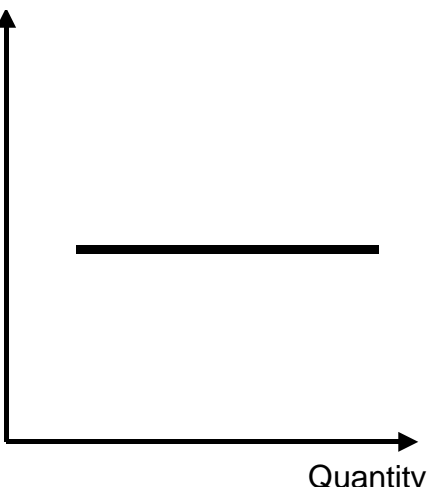
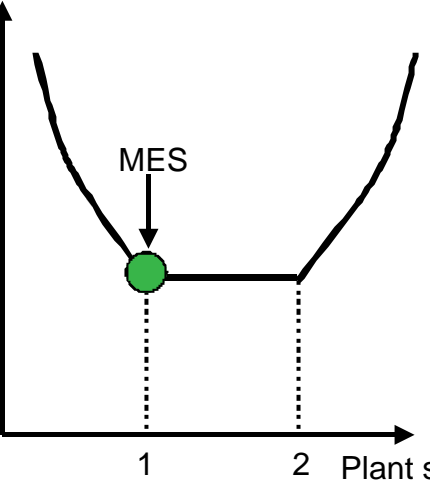


Returns to scale

1 Increasing returns to scale (economies of scale)	2 Decreasing returns to scale (diseconomies of scale)
Possibly because of specialization	Possibly because of coordination problems
<p>Long-run average cost</p>  <p>Quantity</p>	<p>Long-run average cost</p>  <p>Quantity</p>
3 Constant returns to scale	4 Returns to scale and the size of a plant
<p>Long-run average cost</p>  <p>Quantity</p>	<p>Long-run average cost</p>  <p>1 2 Plant size</p>
<p>Until 1: Increasing returns to scale from 1 to 2: Constant returns to scale beyond 2: Decreasing returns to scale MES = minimum efficient scale → where costs first reach their minimum as the size is rising</p>	