- Technical
  - Workers specialise
  - Law of increased dimension
  - Technology implementation
- Purchasing
  - can negotiate discounts with suppliers due to bulk buying
- Managerial
  - Specialists lead to better decision making and efficiency
  - Only a few employees needed
- Financial
  - Firms borrow money at lower interest rates as they are less risky for banks
- Risk Bearing
  - Diversify into many products
  - if one product were to fail, other products can absorb the costs
- Marketing
  - advertising is a fixed cost and is spread over many units for large firms
  - brand awareness

Internal (Changes within a firm)

- Colleges offer qualifications that are in demand= reduced training costs
- Large companies locating in an area allow other companies to benefit from investment
- Agglomerates
  - many similar firms doing related activities share (R and D) resources and suppliers can locate there to reduce transport costs

External (Changes outside a firm)

Economies of scale- AC falls as output rises
- represented by lowest point LRAC curve

- Wastage increases when materials are in large supply
- Difficulty in communication in large firms = reduced coordination/ productivity / efficiency/ cooperation

Internal (Changes within a firm)

- Prices of raw materials increase due to high demand
- Lack of local suppliers= may need to buy from more expensive suppliers

External (Changes outside a firm)

Diseconomies of Scale- AC rises as output rises

Section 4: Production costs and revenue, EOS

Factors of production
-Land
-Labour
-Capital
-Enterprise

Productivity- output per unit employed
- Variance of output from labour is highest
- Productively efficient point(lowest point on LRAC curve)

Specialisation- specialist take up a task
- Leads to division of labour (production line split into subtasks)

+ive- increase quality and quantity
- economies of scale
- tackles scarcity (no wastage)

-ive- repetitiveness=boredom
- lack of flexibility/ transferable skills (could lead to structural unemployment)
- Increased trade dependency

Role of Money
- Both buyers and seller value money
- 3 function: measure of value, store of value and method of deferred payments (loans)

Costs of a firm (production)
- The cost of production includes
1. the monetary value of the factor of production
2. the opportunity cost of you buying that (FOP) compared to another

Short run- at least 1 of the firms FOP is fixed
- costs can be fixed or variable

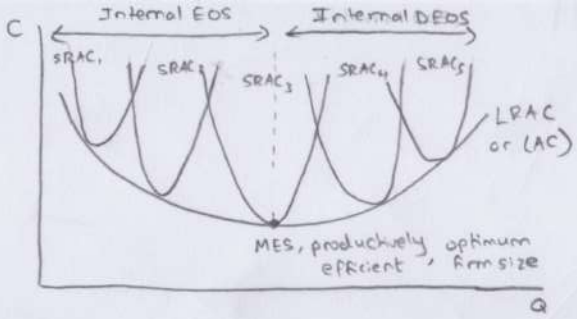
Long run- all FOP's can vary
- all costs are variable

TC = TFC + TVC
AC or ATC = TC/Q
AFC = TFC/Q
AVC = TVC/Q
MC(only affected by variable costs)
= Change in TC/ Change in quantity

LRAC
- Internal economies/ diseconomies of scale (move along the curve)
- External economies of scale (shift curve down)
-External diseconomies of scale (shift curve up)

Revenue- money firms receive for selling G and S
TR = Q * P
AR = TR / Q so AR= price
so AR curve= demand curve
MR=TR2-TR1

- Each SRAC curve relates to a given scale of production



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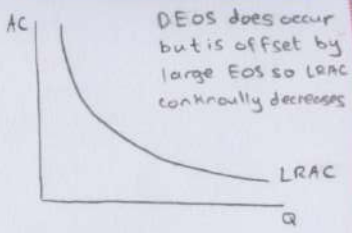

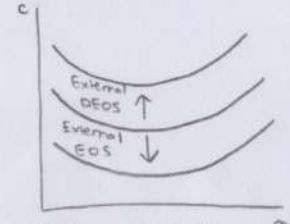

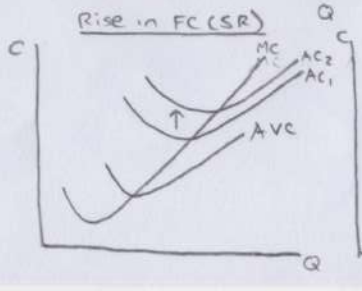

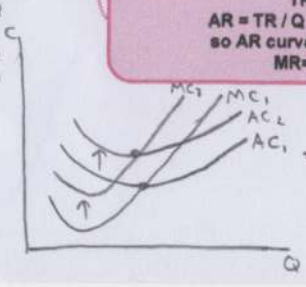

⇒ Rise in VC (SR and LR)

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