

Economies of Scale

In groups cut out the titles and reasons and rearrange them into your notebooks.

Economies of Scale are the factors that lead to a reduction in average costs as a business increases in size.

1. Purchasing Economies
2. Marketing Economies
3. Financial Economies
4. Managerial Economies
5. Technical Economies

When businesses buy large amounts of components, they are able to gain discounts for buying in bulk.

Larger businesses are often able to raise capital more cheaply than small businesses, since it's less risky and so they offer smaller interest rates.

Marketing becomes easier for larger firms since they can buy their own distribution vehicles, advertising companies offer better rates for an advertisement and it's easier to convince the people to sell their product lines than a smaller business.

Flow production methods such as division of labor, the latest technology in machines and systems are luxuries that only large businesses can afford to have.

Therefore, the unit cost per item is reduced for businesses who buy in bulk rather than those which buy in smaller quantities.

Larger companies can afford specialists and this increases their efficiency and helps to reduce their average costs.

Diseconomies of Scale

In groups cut out the titles and reasons and rearrange them into your notebooks.

Diseconomies of Scale are the factors that lead to an increase in average costs as a business grows beyond a certain size.

1. Poor Communication
2. Slower Decision Making
3. Low Morale

Management are very busy and may become distracted and removed from their customers and their needs.

Since there are many employees in the business, sometimes the workers may never see the top managers, causing them to feel unimportant and not valued by the management.

The larger the organization, the more difficult it becomes to send and receive accurate messages.

The lack of these relationships can lead to low morale and low efficiency amongst the workers. This will tend to push up average costs.

Due to the large organization, it often takes longer for decisions to be made.