law of Return to Scale

If given a certain combination of factors of production, producing a given output, all the factors are increased in same proportion and output increases in same proportion, return to scale is constant.

If output increases more than proportionate, then increasing return.

and If output increases less than proportionate then decreasing return.

$1K + 1L = 5Q$

$2K + 2L = ?6\ Q =$

$75 + \rightarrow 80$

L	K	Total product	A.P	
1	1	100	100	Increas.
2	2	250	125	
3	3	450	150	
4	4	760	190	
5	5	950	190	const.
6	6	1140	190	
7	7	1260	180	dec
8	8	1280	160	

Increasing Return to Scale

If all the factors of production increased in a particular proportion, then production increases more than Proportionate.

1L + 1K = 100 Q
2L + 2K = 250 Q
3L + 3K = 450 Q.

Reasons:-

- Specialization & division of labour.
- Individualization of factors

Constant Return

1L + 1K = 100Q
2L + 2K = 200Q
3L + 3K = 300Q.

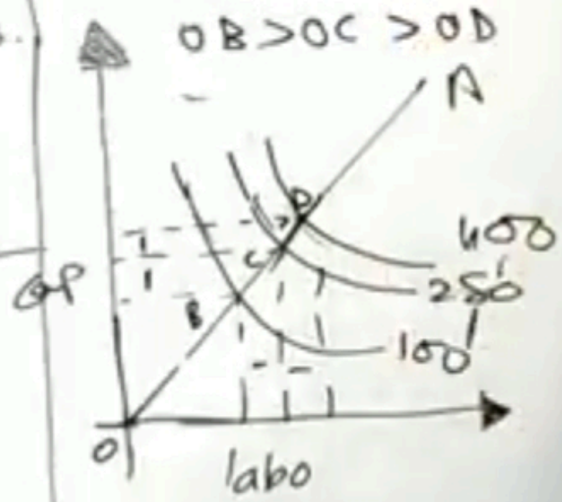
- Reasons :-
- Absence of Advantage & dis. Advantage from ↑ in scale.
- inter - regnum period.

Decreasing Return

1L + 1K = 100Q
2L + 2K = 150Q

Reasons:-

- Problems & complexity of management.
- Exhaustibility of res.



Increasing Return to Scale

If all the factors of production increased in a particular proportion, then production also incre. in same proportionate.

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2L + 2K = 250 Q
3L + 3K = 450 Q.

Reasons:-

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Constant Return

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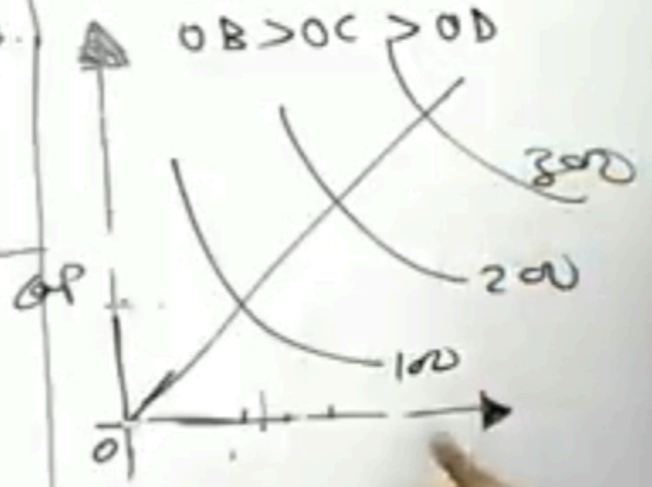

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