MR, Cost Curves and Optimal Production

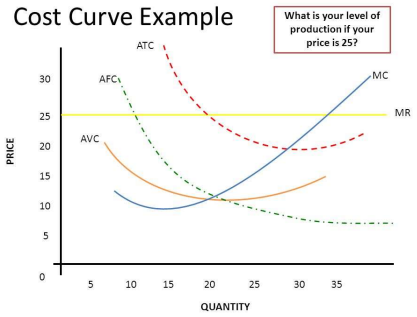
Relationship Between MR & MC
- When MR > MC : Keep on producing
- When MR = MC : Optimum Production Quantity Reached [The point where profit is maximized or loss is minimized]
- When MR < MC: Don't Produce at this level

Relationship Between AR & ATC
- When AR > ATC : Profit
- When AR = ATC : Breakeven Point
- When AR < ATC : Loss

Optimum Production level when MR is above AVC
Quantity level at which MR = MC

Optimum Production level when MR is not above AVC
Shut down Point (Don't produce at this MR level or below)

MR, Cost Curves and Optimal Production



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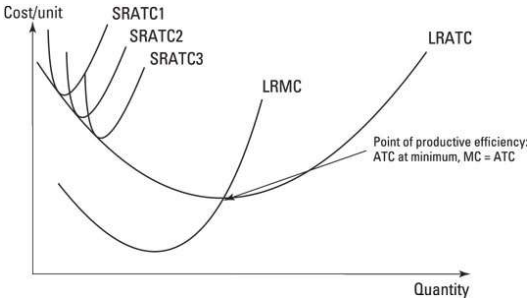
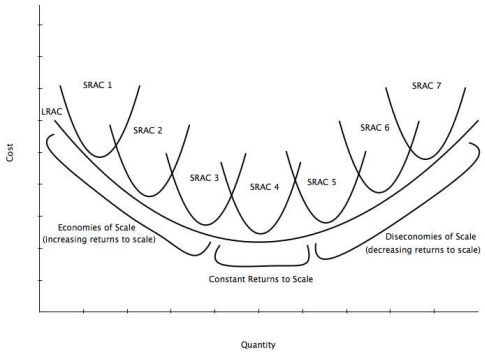
Long Run Structures of Cost



Economies & Diseconomies of Scale

- **Economies of scale** refer to the reduction in cost per unit experienced by a firm when it increases its level of output.
- This is brought about by operational efficiencies, cheap procurement, and synergies as a result of an increase in the scale of production.
- **Diseconomies of scale** happen when a company or business grows so large that the costs per unit increase. It takes place when economies of scale no longer function for a firm.
- With this principle, rather than experiencing continued decreasing costs and increasing output, a firm sees an increase in costs when output is increased.

Returns to Scale

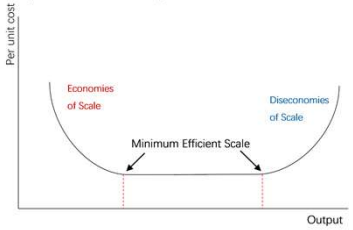


Internal v/s External

- **Internal Economies of scale (competitive advantage):** Training, Innovation, efficient operations
- **External Economies of scale:** Conducive Govt. or Regulator Policies, Environmental Benefits, Technology improvement
- **Internal Diseconomies of scale (Competitive disadvantage):** Internal Conflicts, inefficient policies and operations
- **External Diseconomies of scale:** Govt. or regulators policies not in favor, Natural Disasters

Minimum Efficient Scale and Market Concentration

- The minimum efficient scale (MES) is the lowest point on a cost curve at which a company can produce its product at a competitive price.
- At the MES point, the company can achieve the economies of scale necessary for it to compete effectively in its industry.



Minimum Efficient Scale and Market Concentration

- High Market Concentration = Few firms dominating the large portion of market share.
- If the Minimum Efficient Scale is at large output level only few firms will operate in that particular industry or sector.
- On the other hand, If the Minimum Efficient Scale is at low output level a lot of firms will operate in that particular industry or sector.
- Hence,
  - Higher MES = Higher Market Concentration
  - Lower MES = Lower Market Concentration