

SRATC₁

SRATC₂

SRATC₃

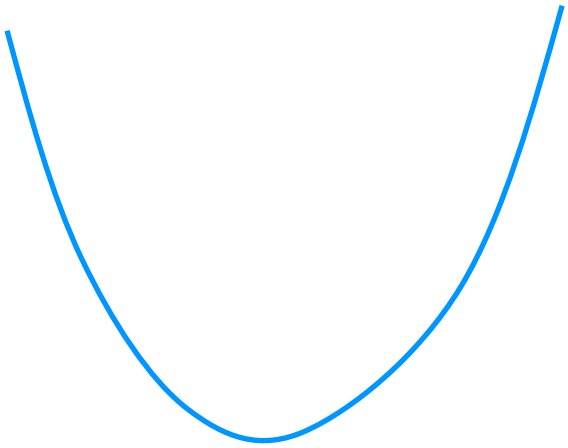
SRAATC4

SRATC₅

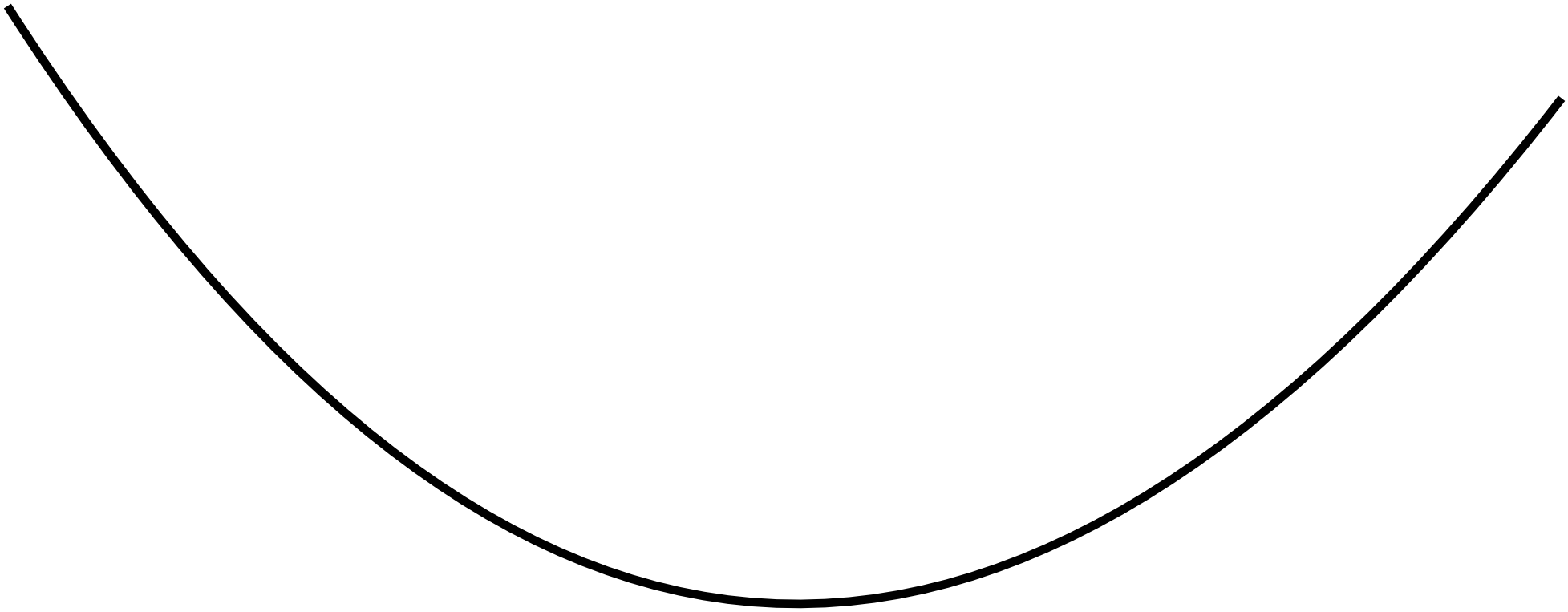
SRATC.6


SRATC₇

LRATIC



To reduce costs the firm would
have to **expand** the plant





Lowest possible
cost per unit with
plant size 1

\$7

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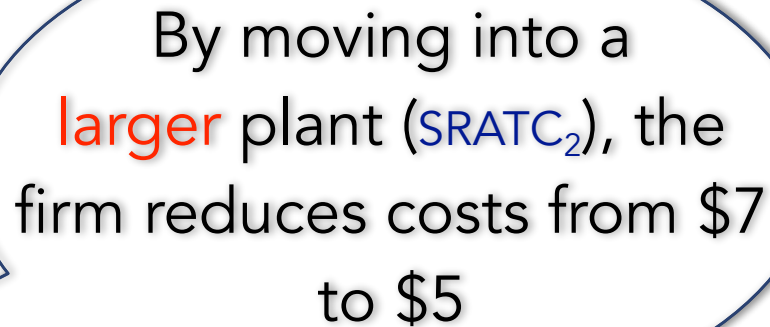
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By moving into a
larger plant ($SRATC_2$), the
firm reduces costs from \$7
to \$5

\$5

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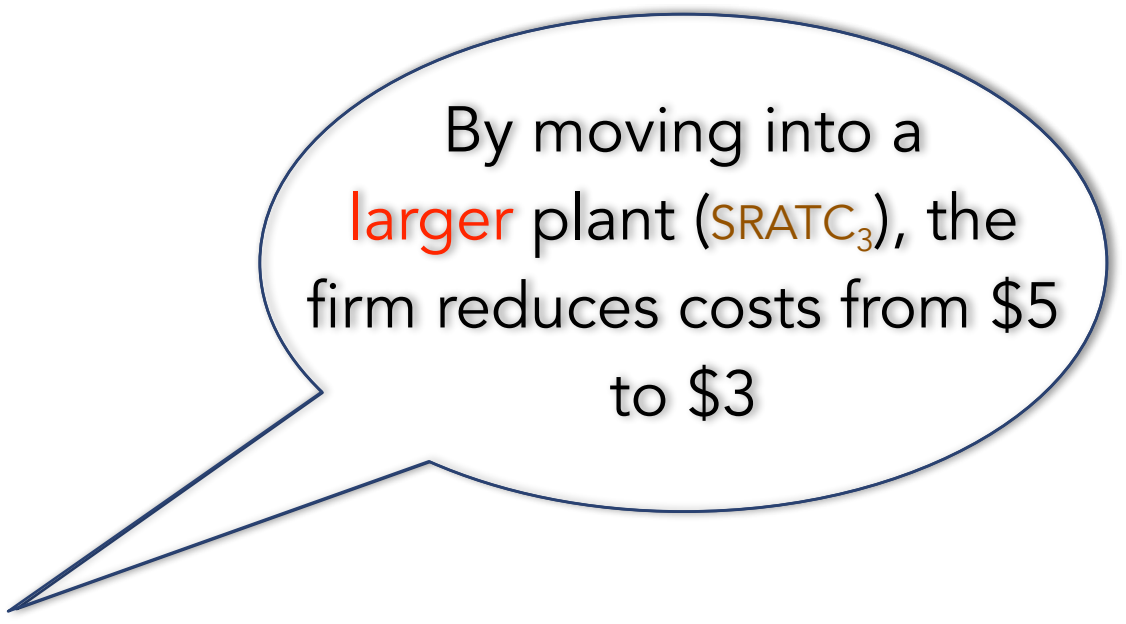
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This **drop** in ATC resulting from increasing the plant size is called **Increasing Returns to Scale**





By moving into a
larger plant ($SRATC_3$), the
firm reduces costs from \$5
to \$3

\$3

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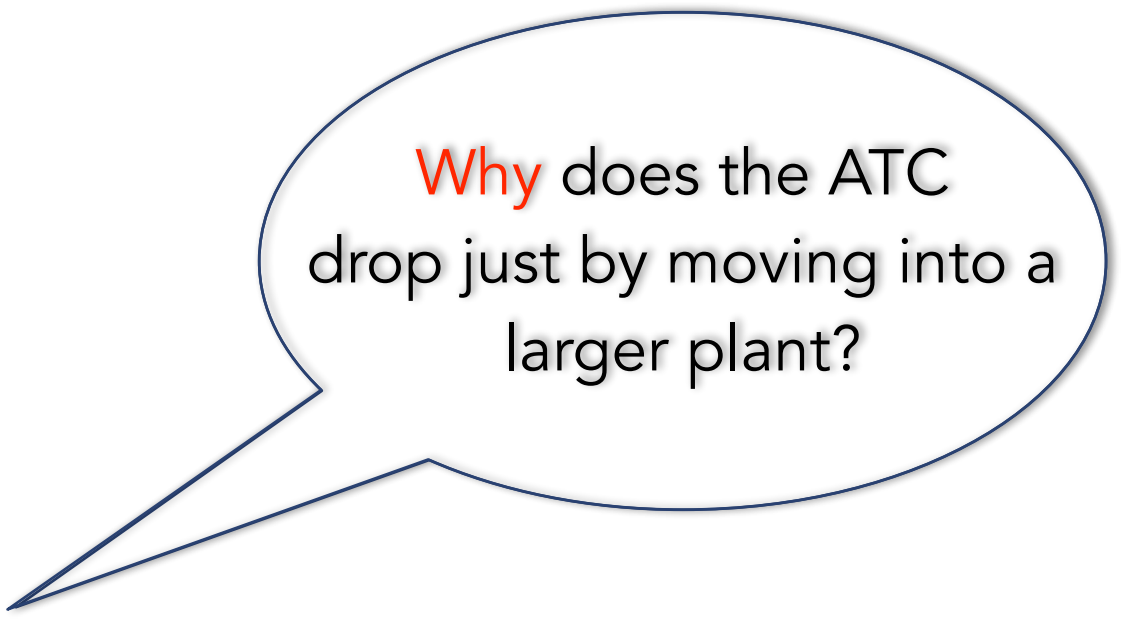
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Why does the ATC
drop just by moving into a
larger plant?

To reduce costs the firm would have to **expand** the plant

