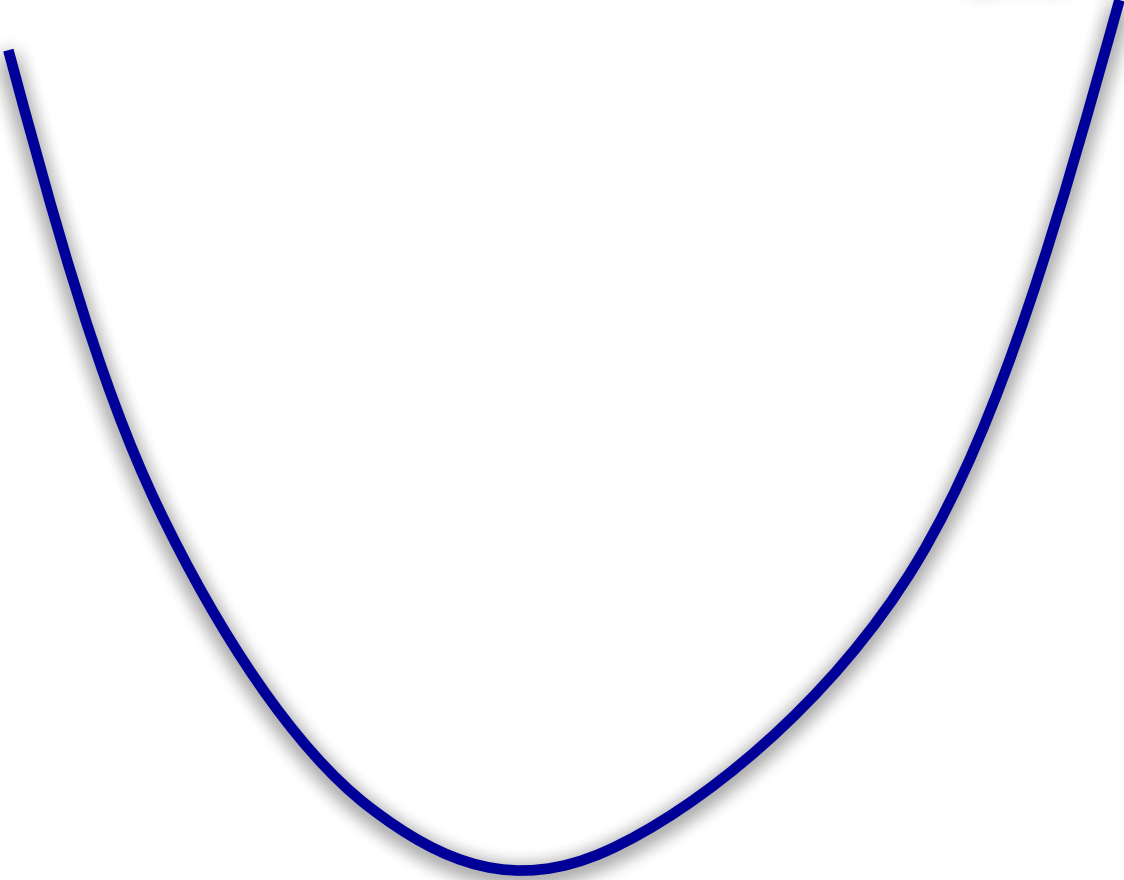




SRATC1



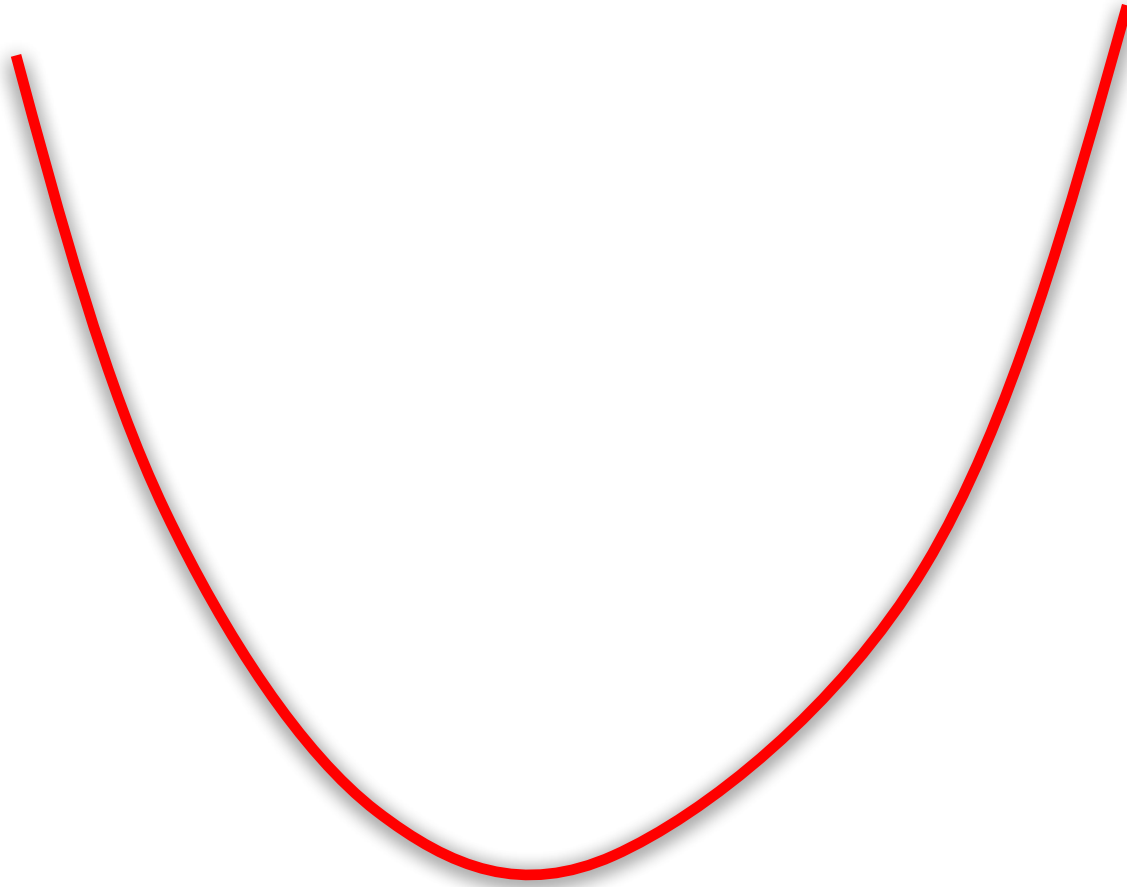
SRATC2



SRATC4



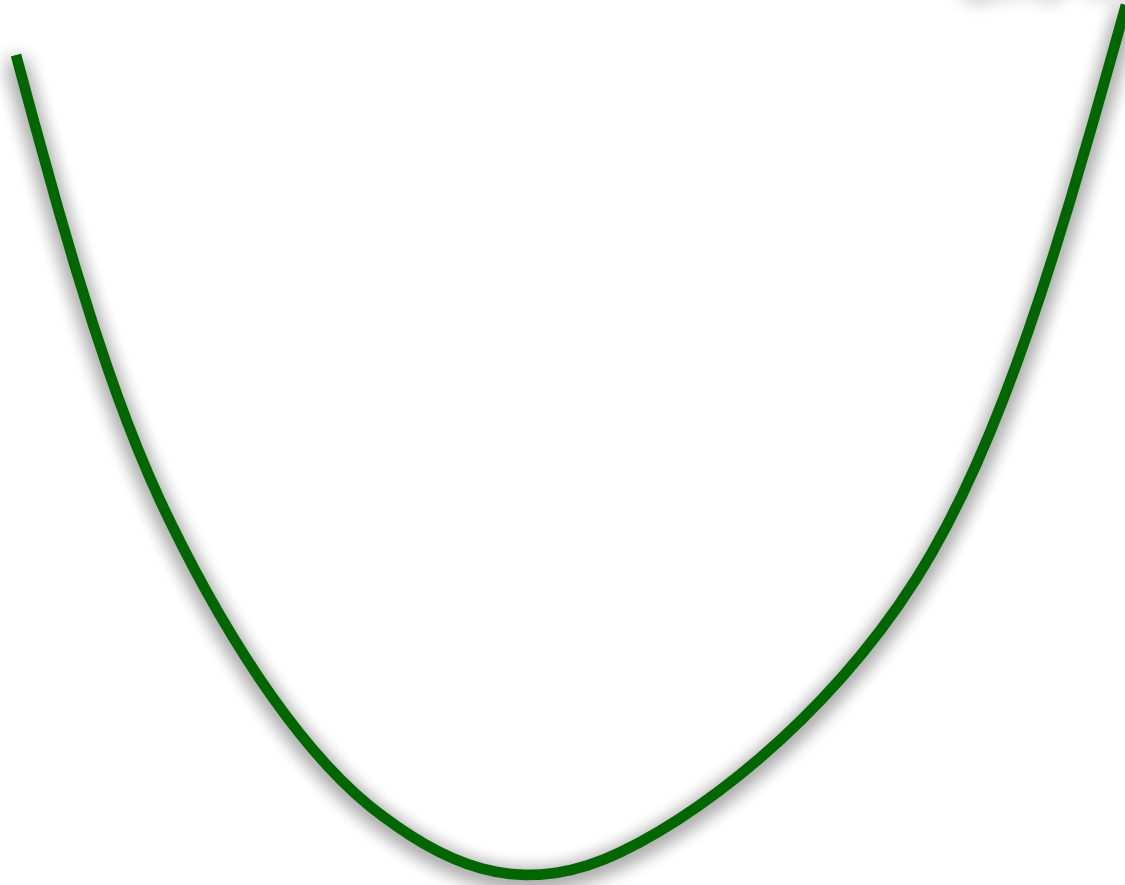
SRATC7



A thick blue line forms a U-shaped curve, resembling a parabola opening upwards. The curve starts at the top left, descends to a minimum point near the bottom center, and then ascends to the top right.

SRATC8

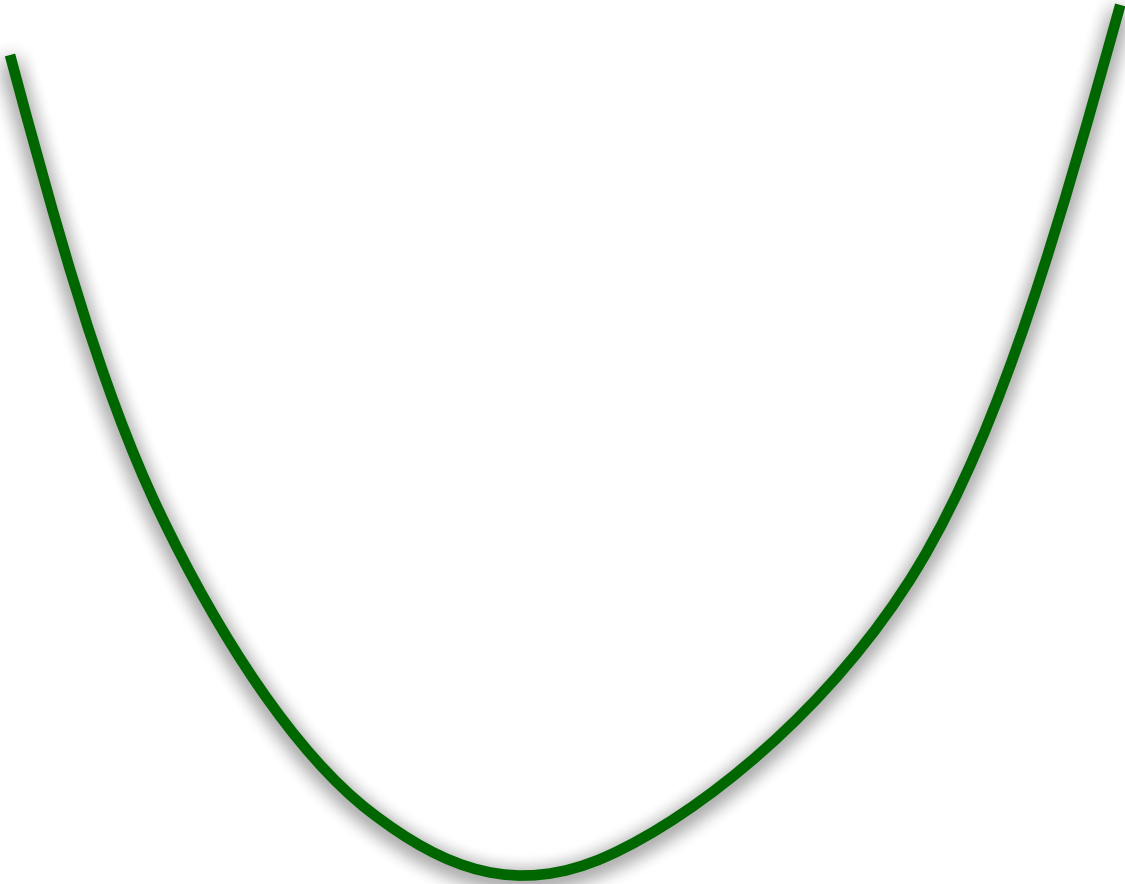
SRATC3



output

LRATC is downward sloping

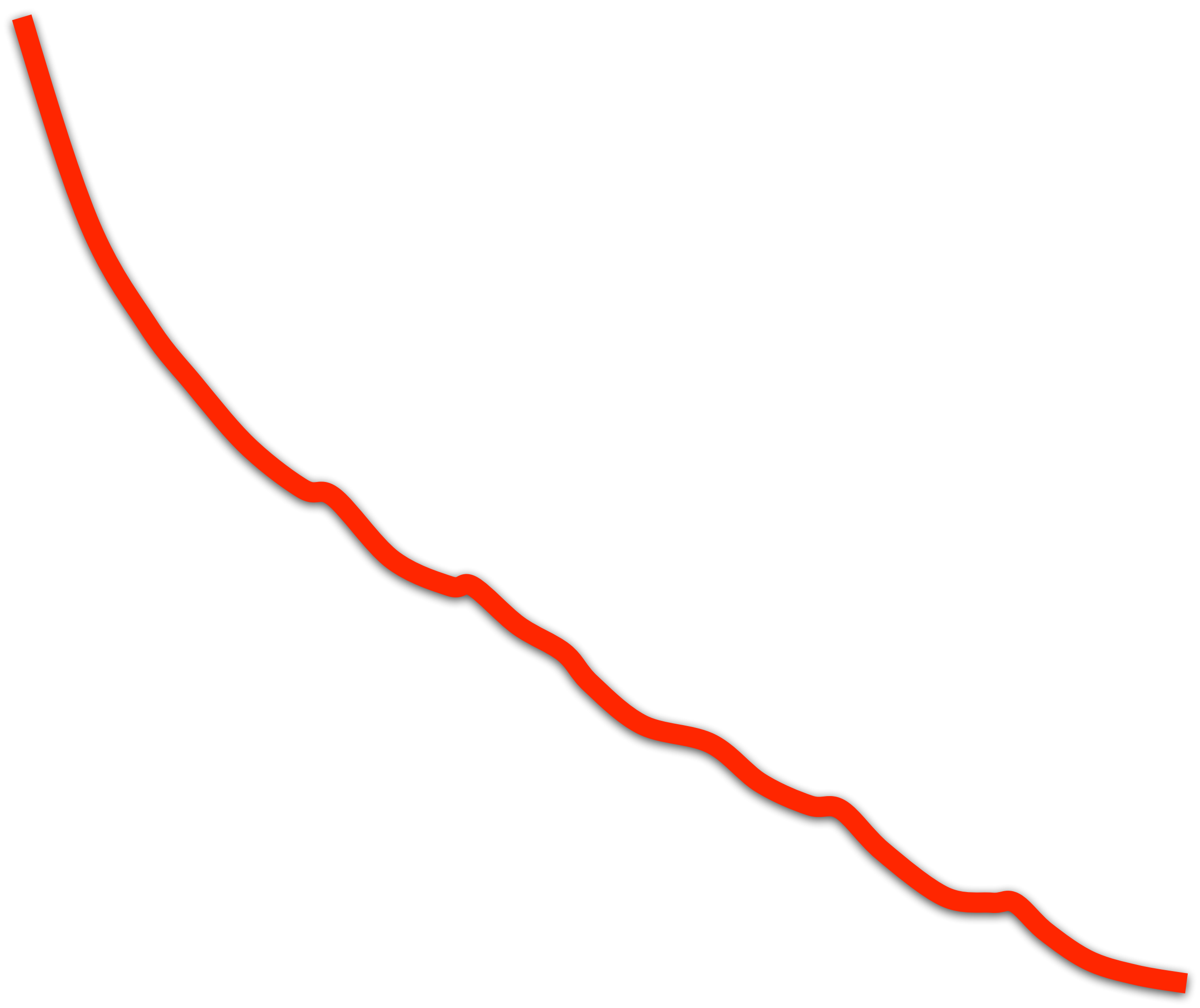
SRATC5



SRATC6



Increasing Returns to Scale



\$8

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\$7

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\$6

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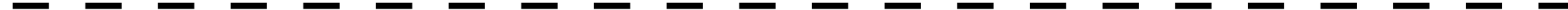
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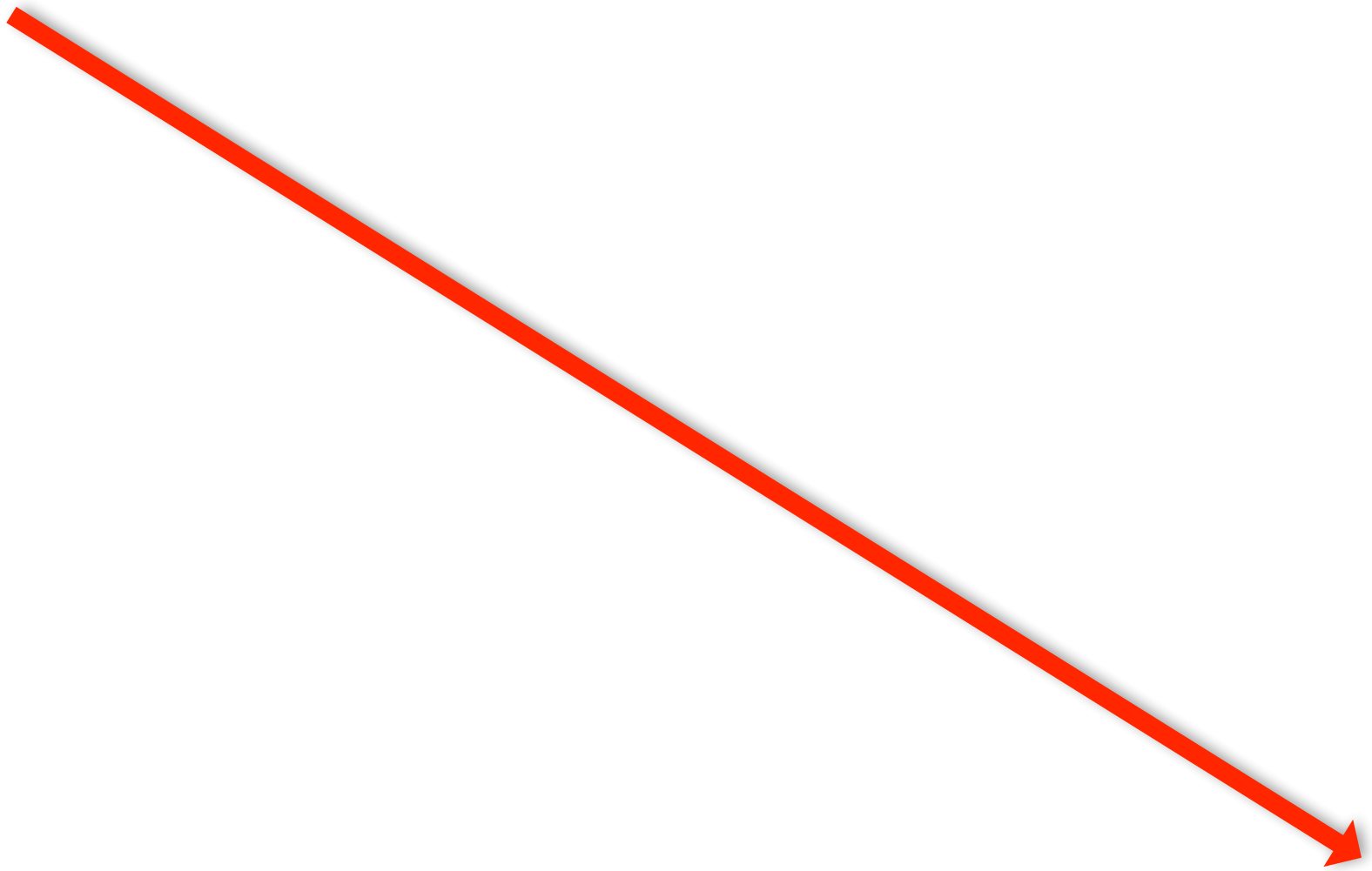
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\$2



\$1

1



LRAATC

Cost Per Unit (ATC)

decrease as plant size
increase

ATC

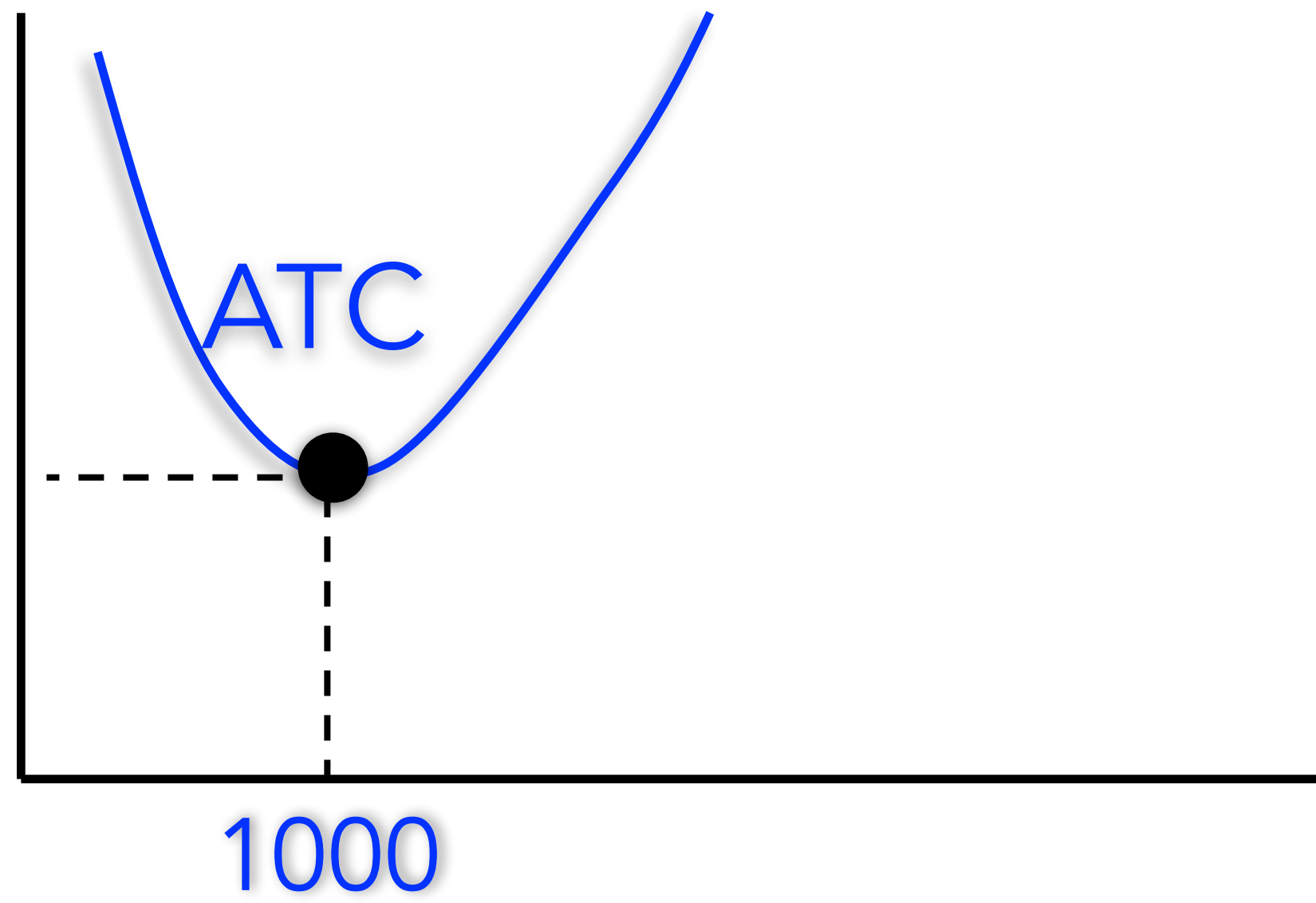
The graph illustrates the relationship between short-run and long-run average total cost curves under increasing returns to scale. The vertical axis is labeled 'ATC' and the horizontal axis is labeled 'output'. Eight short-run ATC curves, labeled SRATC1 through SRATC8, are shown, each representing a different plant size. These curves are U-shaped and shift downward and to the right as the plant size increases. A thick red curve, labeled LRATC, represents the long-run average total cost curve. It is downward sloping and tangent to each of the short-run ATC curves at their minimum points. Text annotations include 'Increasing Returns to Scale' in red and blue, 'Cost Per Unit (ATC) decrease as plant size increase' in blue and red, 'LRATC is downward sloping' in red, and 'LRATC' in red. The y-axis has labels from \$1 to \$8 in increments of \$1, with dashed horizontal grid lines extending from each label.

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An example

$$ATC = \frac{TC}{Q}$$