

SRATC₁

SRATC₂

SRATC₃

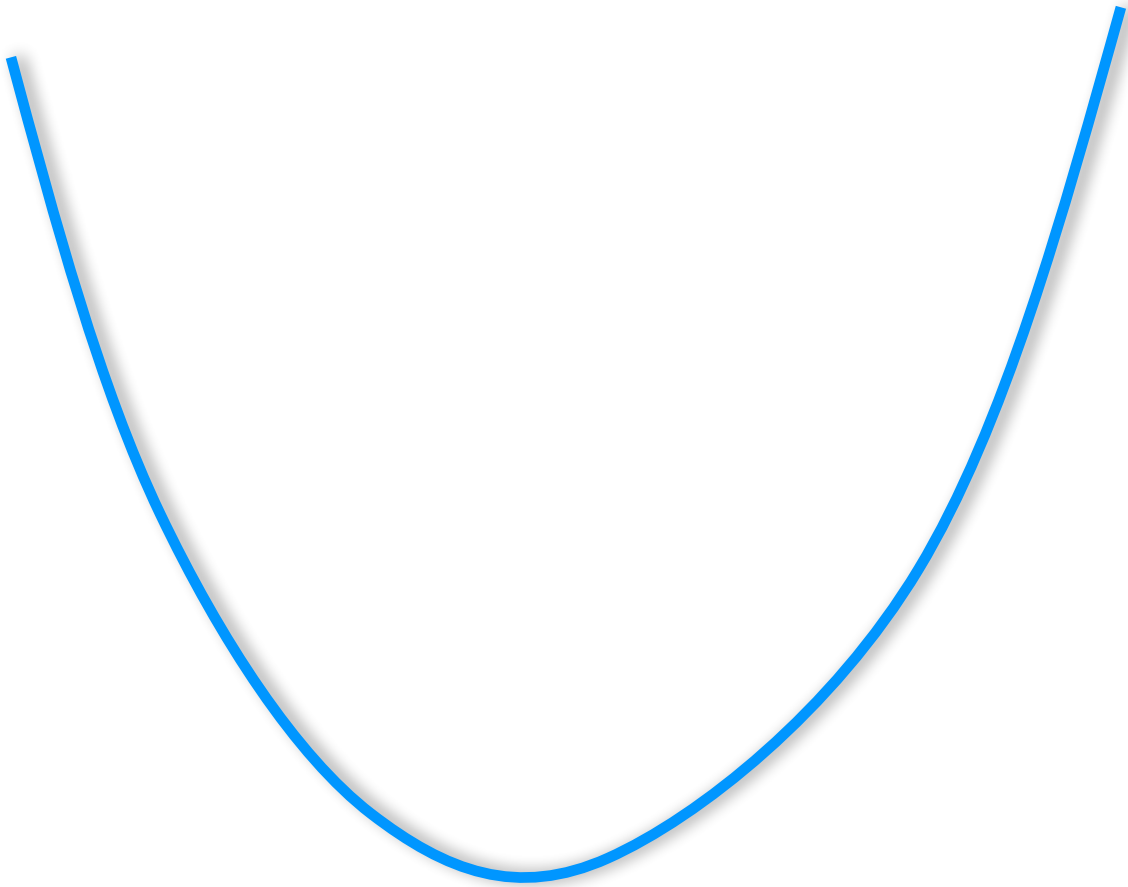
SRAATC4

SRATC₅

SRATC₆


SRATC₇

LRATC



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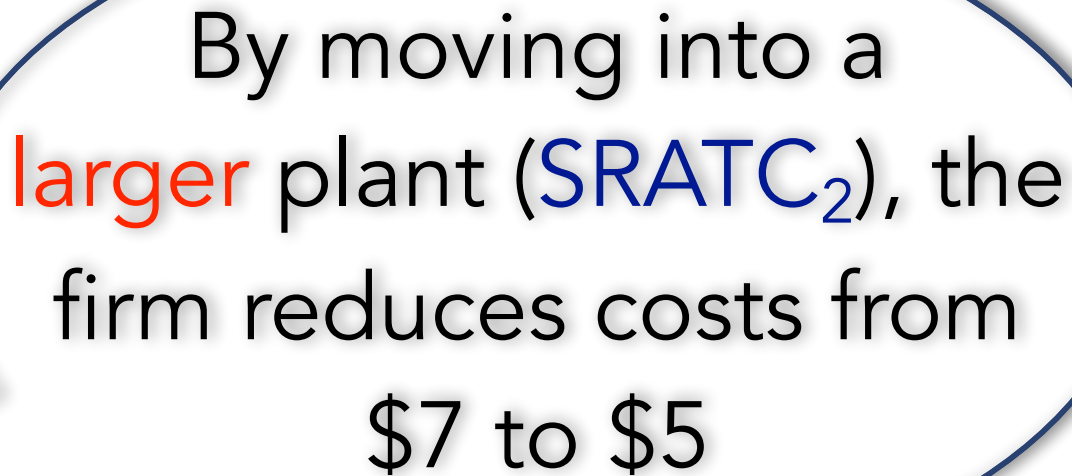
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By moving into a
larger plant ($SRATC_2$), the
firm reduces costs from
\$7 to \$5

\$5

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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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Why

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

To reduce costs the firm would have to
expand the plant

