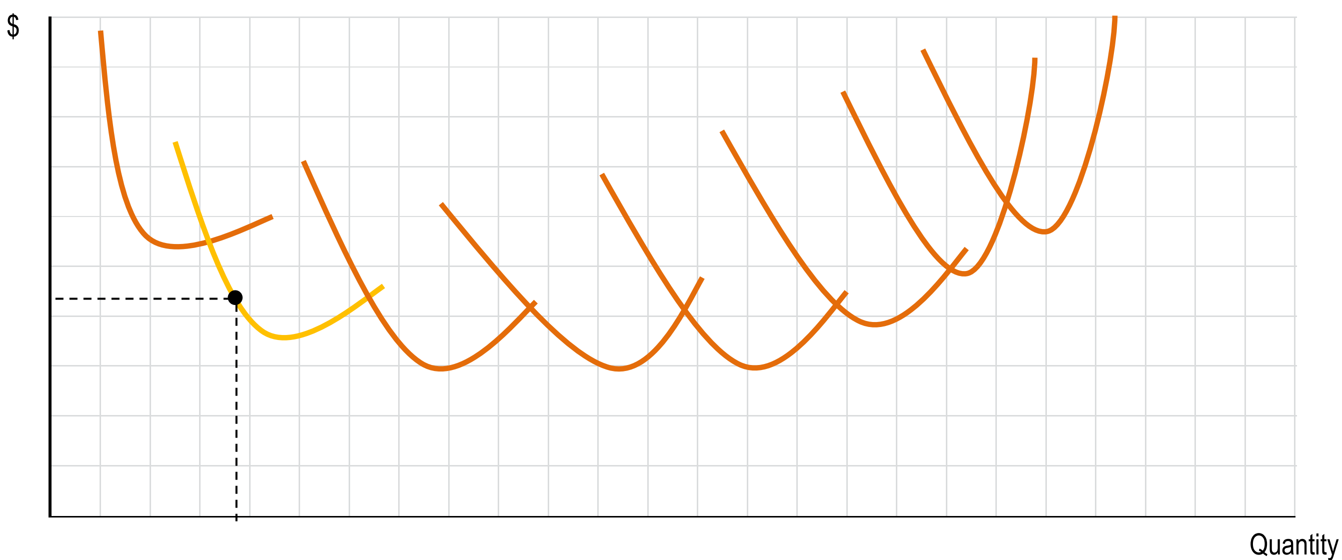
CONCEPT: AVERAGE TOTAL COST – SHORT RUN AND LONG RUN

- In the ***short run***, our fixed costs must remain fixed costs.
  - □ The firm is stuck with decisions it has made in the past.

- In the ***long run***, ____________ costs are variable costs.
  - □ The firm can reevaluate big decisions, such as factory size.



□ ***Economies of Scale*** – where LR ATC _________________ as quantity increases

- Specialization
- Costs may not increase as quickly as output
- Large-Volume Machinery

□ ***Constant Returns to Scale*** – where LR ATC _________________ as quantity increases

- ***Minimum Efficient Scale*** – the quantity where economies of scale end and constant returns begin

□ ***Diseconomies of Scale*** – where LR ATC _________________ as quantity increases

- Too many levels of management
- Coordination Problems

PRACTICE: A short-run production function assumes that

a) The level of output is fixed
b) The usage of at least one input is fixed
c) All inputs are fixed inputs
d) Both (a) and (b)
e) Both (b) and (c)

PRACTICE: Which of the following is TRUE?

a) A firm plans in the short run and operates in the long run
b) In the long run, a firm can change all but one input
c) In the long run, all inputs are variable
d) In the short run, all inputs are fixed

PRACTICE: If a higher level of production allows workers to specialize in particular tasks, a firm will likely exhibit _______________ and _________________ average total cost.

a) Economies of Scale; Falling
b) Economies of Scale; Rising
c) Diseconomies of Scale; Falling
d) Diseconomies of Scale; Rising