1.9 Costs of Production and Economies and Diseconomies of Scale: 10-minute Pack

Total Marks

AQA 7136 · Calculators not allowed · about 10 minutes

Name: _____ Date: ____ / ____ / _____

Answer all questions. Use full sentences for all explain, assess and evaluate questions.

1 Explain risk-bearing economies of scale and how diversification by a larger firm can lower its average costs or risks compared with a small specialised firm.

(Total for Question 1 is 2 marks)

2 Define 'variable cost' in the context of a firm's short-run production.

(Total for Question 2 is 1 mark)

3 Explain why average fixed cost (AFC) falls as output rises, using the relationship between fixed cost and output for a typical firm.

(Total for Question 3 is 2 marks)

4 State two internal economies of scale a large manufacturing firm might enjoy as it expands production.

(Total for Question 4 is 2 marks)

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Mark scheme · 1.9 Costs of Production and Economies and Diseconomies of Scale: 10-minute Pack

Question 1

larger firms can diversify products and markets, spreading the risk of a downturn in any one market across other products or regions — **M1**

this reduces the likelihood of large income swings and can lower the effective average cost of capital or insurance-like expenses — **A1**

Answer: Large firms can diversify products and markets, spreading risk and reducing income volatility and effective per-unit costs associated with risk.

Question 2

a cost that changes with the level of output, for example raw materials or piece-rate labour — **B1**

Answer: A cost that changes with the level of output, for example raw materials or piece-rate labour.

Question 3

AFC = fixed cost divided by output, so as output rises the same fixed cost is spread over more units — **M1**

therefore AFC falls continuously as output increases (spreading effect) — **A1**

Answer: AFC = fixed cost/output, so increasing output spreads the fixed cost over more units and AFC falls.

Question 4

technical economies, for example more efficient specialist machinery or production techniques — **B1**

managerial economies, for example employing specialist managers which improves efficiency — **B1**

Answer: Technical economies (specialist machinery) and managerial economies (specialist managers).

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