

E101 - 5.3 - Long Run Production Decisions

Long Run - The period in which all inputs are variable.

Long Run Average Cost Curve - A graphical representation of the per-unit costs of production in the long-run.

Constant Returns to Scale - A firm's output increases by the same % as the increase in its inputs.

Economies of Scale - Cost Advantages achieved as a result of large scale operations.

Increasing Returns to Scale - A firm's output increases by a greater % than the increase in its inputs.

Diseconomies of Scale - Bureaucratic inefficiencies in management that result in decreasing returns to scale.

Decreasing Returns to Scale - A firm's output increases by a smaller % than the increase to its inputs.

Technological Improvement - changes in production techniques that reduce the cost of production.

Minimum Efficient Scale - Smallest sized plant capable of achieving the lowest LR average cost of production.