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EFFECT OF SCALE

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Abstract
This article provides a comprehensive explanation of the role of economies of scale in production, including the theories of economists from past centuries. it is used to get more profit. It can be seen that this topic is very important for every entrepreneur and business people.

Keywords: Scale effect, long-term and short-term costs, intensive growth, extensive growth, large businesses, small businesses, break-even point, law of diminishing returns.

Introduction

Firms in any market strive to maintain their reputation in the market to maximize demand and be competitive, and at the same time they benefit directly or indirectly from economies of scale. Economies of scale (English: economies of scale) are associated with the reduction of costs per unit of production with the integration of production, changes in the cost of a unit of production depending on the scale of production in the long term. In other words, it represents the relationship between the expansion of production scale and the growth rate of production . The amount of factors used in production is called the scale of production. From this, it can be seen that large-scale production occurs directly as a result of the scale effect. For example, 1 enterprise produces 100 units of products, of course it also purchases resources for its products for 100 units. Another enterprise buys more resources than a small enterprise for 1000 thousand units of production and buys it cheaper than other small centers in the market. If that company sells those 1000 units at the same price as 100 units, it can make almost 10x profit. But if he sells the price lower than the others, the big seller in the market can beat other competitors, in other words, beat the market of pure competition and operate in the market of monopolistic competition.

According to the duration of production and its costs:
Valid for a short period of time
It will be effective for a long time.

Short-term refers to the time when at least 1 of the factors of production cannot be changed. Factors that cannot change over time are called constant factors of production. For example, it usually takes a long time to change the direction of a firm's use of capital. Not only time, but its cost, that is, it requires a lot of money, and it definitely takes time. Therefore, the firm prefers to change L-labor and M-resource in the short term. In many cases, the company prefers to change the use of human capital if the new employee is highly qualified because it can make the company more profitable than before. During this period, the Law of **Diminishing Returns** applies. The law represents diminishing marginal product. That is, if the enterprise spends a lot of labor on the production process due to the low cost of alcohol, and after achieving a good result, the labor cost increases, this will have a negative effect on the volume of production. For example, enterprise A had the maximum production volume when using 8 units of labor. But if he uses more labor, the marginal product of labor will decrease.

Economies of scale in a competitive market.

In competitive markets, companies use economies of scale, which in turn outpaces other competitors in terms of price. The main reason for this is its low cost. Economies of scale are used mainly in large enterprises. Because small enterprises purchase resources less than large ones. This, in turn, is cheaper than companies that buy a lot of material, and there is a significant difference in their costs. At the moment, this will encourage large enterprises to form an Oligopoly.

Exogenous scale is defined as the decrease in the costs of the firm as a result of the increase in scale throughout the network.

Endogenous - a reduction in costs per unit of goods due to an increase in the scale of production within the enterprise.

External economies of scale imply that the number of firms producing the same good increases while the size of each firm remains unchanged. Usually, in this case, the market remains sufficiently competitive, that is, exporters can sell as much as they want at a market price they cannot influence.

The internal scale effect refers to the situation where the number of firms producing goods has decreased while the amount of production has not changed. In most cases, this situation creates unhealthy competition, which means that manufacturers can influence the price of their goods and increase sales volume by lowering the price of the goods.

Innovation and scale effect

The costs incurred by the company are distributed evenly over all the products produced. As more is produced, its economies of scale increase. For example, MICROSOFT spends $25 billion on R&D (research and development) to create Windows 7. If it sells 1 million, it will be $25,000.

If it sells 1 billion, that's $25. However, if the demand for the product falls in the market, it is natural for the company to incur losses. Therefore, each enterprise should determine the optimal amount of production. That is, the quantity produced by him should not exceed the market demand, and his supply should not be less than the purchasing capacity of the market. What if that's the case? For example, the demand for a car in the market is 100 units. But the enterprise produced 125 cars. It is natural that the main goal of the enterprise is to sell all its products. But we know that now he cannot sell the products at the previous price or now he will create a demand for his products in the market.

Of course, with strong marketing, it arouses the demand for its products in the population.

Economies of scale include intensive or extensive changes in the enterprise.

It is said to increase the productivity of the intensive growth-production process by organizing the production from production areas, workplaces in two or three shifts, or harvesting crops twice. That is, maximum use of other factors is envisaged without expansion of the production infrastructure.
E xtensive growth is said to expand the production process (increasing jobs, expanding acreage, etc.). In this case, the consumption of all factors in production will increase.
Economies of scale can have both positive and negative consequences. With a positive effect, average costs (cost of production) decrease with an increase in production volume.
With a negative effect, with such an increase in production volume, the cost of production, on the contrary, increases.
Positive influencing factors
- the division of labor can be organized more successfully in a large enterprise, because many employees work there, which helps to increase labor productivity.
- large enterprises can reduce costs by purchasing materials in bulk, as many suppliers offer discounts when purchasing large quantities of goods.
- lenders trust large companies more, it is easier for them to attract investments or approve a bank loan.
- a large enterprise offers several product options at the same time, and if the demand for one of them decreases, it can compensate by increasing the sales of other products.

Conclusion :
Every entrepreneur and economist strives to get more profit with less resources, and this goal is achieved due to economies of scale.
As written above, everything has its good and bad side to avoid it, not to increase the costs beyond the break-even point
Have you ever wondered why a larger business might charge less for a similar product than a smaller one? It's all about economies of scale—the reduction in costs that businesses can incur as they increase production. Learn everything you need to know about the advantages and disadvantages of economies of scale and why maximizing business growth is so important for startups and early-stage businesses. Economies of scale give large companies a competitive advantage over smaller companies because the larger the business, the lower its costs per unit.
An example of economies of scale:
A common example of economies of scale can be seen when looking at large supermarket chains and independent grocers. Larger chains have more cash in the bank and because they have more customers, they can buy larger quantities of food from suppliers, which cheaper per unit than independent stores. That's why it's cheaper to do your weekly shop at a big chain rather than a small business .

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