Date

*] Economies and diseconomies of scale → long run.

A]. Internal – In control of the firm

i] financial.
- In short run → it is very difficult for an entrepreneur to raise money for his business as his business in new.
- In long run → it is comparatively easier to raise money and take loan from financial institution. As the business has some goodwill. [economies to scale]

However, if excess debt is taken, the firm may fall into debt trap. [diseconomies to scale].

ii] commercial.
- In short run :- The scale of operation of a business is very small. Hence the entrepreneur has less bargaining power, when it comes to buying raw material and other goods from supplier.
- In long run → as the scale of operation increase, with larger factory size the order placed for buying raw material and other goods will increase. This will reduce the per unit cost. Hence, now the entrepreneur can :-

i] Either enjoy better margins or
ii] Increase its market share by passing on the benefit to customer. (Discount de ke attract karana) [economies to scale]

However, with increase in scale of operations there will be huge increasing in selling and advertisement cost which were minimal in short run. [diseconomies to scale]

Example :-
Divi's lab 75% – 80% of world naproxen (API used in paracetamol) is supplied by it per unit cost – lowest.

iii] Risk Bearing

o] In short run → a business has lesser risk bearing capacity

o] This is because of lack of experience and capital.

In long run → However, in long run as the main business establishes, entrepreneur can take more risk by diversifying the busines. [economies]

- RIL , ITC

↓ ↓

Jio FMCG / Hotel

However, after certain point of time in long run the risk taken for diversification may not be fruitful. [diseconomies]

iv] Managerial

- In short run → the entrepreneur will try to manage all the function of the business such as finance, taxation accounting, marketing, sales, HR, R&D, etc alone. Due to this it becomes difficult to grow in short run.
- In long run → there will be departmentalization. Hence for each function of a business there will be a separate set of manager / people. Owing to this, there can be rapid expansion [E] However, if there is excess growth communication and coordination becomes difficult due to narrow approach of managers. [Diseconomies to scale]

v] Technical

- In short run → the entrepreneur cannot easily buy a new or better machine wich is having better technology because of lack of funds. Hence he might be using outdated and redondant machine, where the technology is obsolete

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In long run :- the entrepreneur can shift to a better technology and increase the efficency of production. [E] However, the bigger machine will require better management of labour. Also, there will be increase in advertisement cost for selling the larger quantity. [Diseconomies]

B] External – not in control of the firm

1/2] Cheaper raw material and capital equipment / Growth of ancillary industry

In long run as the entire industry grows, the ecosystem will also become better and competitive. In simple words there will be growth in ancillary / supportive industries. Hence there will be better availability of cheaper raw material and capital equipment [economies]

example :

Main industry	Ancillary / supportive industry
Automobile	Tyres
Maruti	JK tyres, MRF, Ceat, Apollo, etc

growth here will help

3] Technological external economies.

There will be introduction of better technology. In long run an entrepreneur can use better machines which and hence an entrepreneur can increase efficency and help in production process.

4]. Development of skilled labour

When an industry enters long run, the availability of skilled labour becomes easier.

example: The growth in IT industry has led to increased demand for software engineers. Hence availability of skilled labour has become easy for now IT firms

5) Better transportation and marketing facilities

In long run, as the infrastructure of a country improves there will be better roads and transportation facilities. Hence it will be easier for an entrepreneurs to quickly buy goods from supplier and deliver the end product to customer.

Also, due to social media and internet penetration there are better marketing facilities.

6) Economies of information.

Today it is much easy to have access to the information of competitors and supplers through their websites and sources like internet.