



## **Study Materials 08**

**Sub: Economics Class: XII**

**Chapter 04: Theory of Production F.M: 45**

**Topic: Stages of Production, Law of returns to scale,**

**Economies and Diseconomies of Large scale production Date: 27/06/2020**

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**Short Answer questions**

**1x15 = 15**

**Fill in the blanks:**

1. In production process, the concept of three stages was introduced by \_\_\_\_\_.
2. Second stage ends where MP is \_\_\_\_\_.
3. In production the first stage is known as \_\_\_\_\_.
4. The economic region is applicable only in the \_\_\_\_\_.
5. The relation between the change in the output level and the change in the scale of the production process is known as \_\_\_\_\_.
6. If doubling of all inputs results in more than doubling the output level then it is known as \_\_\_\_\_.
7. Change in output level is in the same proportion of change in input level is known as \_\_\_\_\_.
8. If the output level increases at a lower proportion than the increase in inputs then it is known as \_\_\_\_\_.
9. The unit cost of production becomes \_\_\_\_\_ in large scale production process.
10. If the firm enjoys some advantages within itself then it is known as \_\_\_\_\_.
11. When the cost of production begins to increase in large scale production then it is known as \_\_\_\_\_.
12. Large scale production is hampered due to the limitations imposed on the \_\_\_\_\_ of the market.
13. External economies of scale are those economies which are enjoyed by a firm as a result of the growth of the \_\_\_\_\_.
14. The economies of scale associated with the location are known as \_\_\_\_\_.
15. When large scale production takes place, \_\_\_\_\_ can be take place.

**Answers:**

1. Cassels.
2. Zero.
3. Stage of increasing return.
4. Second.
5. Law of returns to scale.
6. Increasing returns to scale.
7. Constant returns to scale.
8. Decreasing returns to scale.
9. Lower.
10. Internal economies.
11. Diseconomies.
12. Size.
13. Industry,
14. Localization.
15. Specialization.

## 2 marks questions

2x10=20

### 1. Define internal economies.

**Ans:** If the firm enjoys some advantages within itself then it is known as internal economies.

### 2. What do you mean by external economies?

**Ans:** When a firm enjoys certain economies due to the growth of other firms, such economies are known as external economies of scale.

### 3. What do you mean by stage of increasing returns?

**Ans:** It is the first stage in the production process. The first stage is up to that point where the AP of the variable input reaches maximum. In this stage AP is increasing and MP is higher than the AP.

### 4. What do you mean by technical economies?

**Ans:** The economies of scale which are associated with the use of machine technology are known as technical economies.

### 5. Why is the second stage known as economic region?

**Ans:** In the third stage MP of variable factor is negative. This means that TP decreases when more units of the variable input are employed. So it will not be profitable to employ any input if its MP is negative. Again in the first stage AP of the variable factor increases. Hence so long as AP increases it is profitable to employ more and more units of the variable factor. This will continue until we enter the second stage. So a rational entrepreneur will operate only in the second stage.

### 6. What are the stages in the production function?

**Ans:** Production process may have three stages. These are:

- Stage of increasing returns.
- Stage of diminishing returns.
- Stage of negative returns.

### 7. State the law of returns to scale.

**Ans:** The law of returns to scale refers to the relation between the change in the output level and the change in the scale of the production process.

### 8. What do you mean by risk spreading economies?

**Ans:** The big firm can spread risk among different products and among different sources of raw materials. These are known as risk spreading economies.

### 9. What do you mean by constant returns to scale?

**Ans:** If the output level changes in the same proportion in which the inputs are changed, then there is said to be constant returns to scale.

### 10. What do you mean by decreasing returns to scale?

**Ans:** If the output level changes in the less proportion in which the inputs are changed, then there is said to be decreasing returns to scale.

## 5 marks questions

5x2=10

### 1. State the law of returns to scale. What are its types?

**Ans:** law of returns to scale refers to the relation between the change in the output level and the change in the scale of the production process. Scale means size of production. It depends on the amount of labour employment and capital employment in the production process. This law is related with long run production process.

There may be three types of returns to scale. These are:

1. **Increasing returns to scale:** If in the production process it is found that output level increases in a greater proportion, than the increase in inputs, then production process is said to be subject to increasing returns to scale.
2. **Constant returns to scale:** If the output level changes in the same proportion in which the inputs are changed, then there is said to be constant returns to scale.
3. **Decreasing returns to scale:** If the output level changes in the less proportion in which the inputs are changed, then there is said to be decreasing returns to scale.

### 2. What do you mean by internal economies of large scale production. Explain it.

**Ans:** When any firm is engaged in large scale production, it can enjoy certain cost reductions from within the firm itself. These are known as internal economies of scale. There are different types of internal economies. These are:

1. **Technical economies:** The economies of scale which are associated with the use of machine technology are known as technical economies.
2. **Marketing economies:** Marketing economies are those economies which are associated with the purchase and sale of materials or final products.
3. **Financial economies:** These economies relating to financial transactions enjoyed by a firm on a large scale are known as financial economies.
4. **Managerial economies:** The economies associated with the process of management are known as managerial economies.
5. **Risk spreading economies:** The big firm can spread risk among different products and among different sources of raw materials. These are known as risk spreading economies.
6. **Economies of research and development:** Lower cost of production is possible through promotion of research and development. These economies are known as economies of research and development.
7. **Economies of welfare:** large firm can spend more amount of money on providing good working conditions and social security benefits for the employees. These are known as economies of welfare.

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27.06.2020