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ECONOMICS E-NOTE FOR YEAR 10

TOPIC: INTERNAL AND EXTERNAL DISECONOMIES OF SCALE

Internal and External Diseconomies

The word diseconomies refer to all those losses which accrue to the firm in the industry due to the expansion of their output beyond a certain limit. These diseconomies arise due to a use of unskilled labourers, out-dated methods of production etc.

Like economies, diseconomies are also of two types.

1. Internal Diseconomies
2. External Diseconomies

1. Internal diseconomies:

Internal diseconomies apply to all those factors which raise the cost of production of a particular firm when its output increases beyond a certain limit.

These factors may be of the following two types:

(a) Inefficient Management:

The main reason of the internal diseconomies is the lack of efficient or skilled management. When a firm expands beyond a certain limit, it becomes difficult for the manager to manage it efficiently or to co-ordinate different processes of production. It adversely affects the operational efficiency.

(b) Technical Difficulties:

Another major reason for the onset of internal diseconomies is the emergence of technical difficulties. In every firm, there is an optimum point of technical economies. If a firm operates beyond these limits, technical diseconomies will emerge. For instance, if an electricity generating plant has the optimum capacity of 1 million Small scale and large scale production. Kilowatts of power, it will have lowest cost per unit when it produces 1 million Kilowatts. Beyond the optimum point, technical economies will stop and technical diseconomies will result.

2. External Diseconomies:

External diseconomies are not suffered by a single firm but by all the firms operating in a given industry. These diseconomies arise due to much concentration and localization of industries beyond a certain stage. Localization leads to increased demand for transport and, therefore, transport costs rise.

Similarly, as the industry expands, there is competition among firms for the factors of production and the raw-materials. This raises the prices of raw-materials and other factors of production. As a result of all these factors, external diseconomies become more powerful.

TO BE COPIED INTO YOUR ECONOMICS NOTE.

PRACTICE QUESTION

1. If a company doubles all its inputs and discovers that its output is more than doubles, we can say that the company is experiencing
 - A. Increasing Marginal utility
 - B. Diseconomies of scale
 - C. Increasing costs
 - D. Constant returns to scale
 - E. Increasing returns to scale

2. Which of these would not be included in the fundamental principle of a free enterprise economy
 - A. Private ownership of factors of production
 - B. The right to organize factor for production purposes
 - C. The right to make private profit
 - D. Government control of mobility of factor of production
 - E. Government effort to encourage competitive capitalism within the law of the country

3. The advantage of sole proprietorship is as follow
 - A. It is always successful
 - B. Continuity is no problem
 - C. Control and supervision is under one man
 - D. Funds are easy to obtain
 - E. Inter-generational equity is assured

4. Which of these should determine, in a planned economy how the factor of production are to be allocated among different production activities
 - A. Fairness
 - B. The distribution of income and wealth
 - C. Public need which is determined by the government
 - D. Private needs determined by the market
 - E. The ability of individual to make profit

5. Which of the following is NOT strictly included In the study of economics?
 - A. The study of wants
 - B. The study of choice
 - C. Whether a particular want satisfies a good or bad purpose
 - D. The study of scarcity
 - E. The study of substitution

6. In economics, production is complete when

- A. Goods are produced in the factory
- B. Goods are sold to the wholesalers
- C. Goods and services are produced by the government
- D. Prices are fixed for goods and services
- E. Goods and services finally reach the consumer

7. Production covers all but one of the following activities:

- A. changing the position of a good in time as, for example, holding stock of goods until they are required
- B. the provision of some kind of service e.g retailing
- C. changing the form of a good from the raw material to the finished product
- D. changing the situation of a good as for example, from a factory in Lagos to retail shop in port-Harcourt
- E. the use of goods and services to satisfy individual wants

8. Division of labour means

- A. dividing the labour into different categories
- B. splitting the process of production into different parts to be completed by each person
- C. dividing the goods and services into different sections
- D. assigning different duties to labourers
- E. group of labourers working in a factory or shop

9. By utility we mean

- A. usefulness
- B. power of satisfying a want
- C. beneficial
- D. advantageous
- E. consumable

10. Opportunity cost is the

- A. price of scarce goods
- B. resources required for making a commodity
- C. cost of luxury goods
- D. accrual of financial losses by chance
- E. alternative forgone in order to satisfy a want

THEORY:

1. Distinguish Between Industry and A Firm and State Five Reasons Why Small Firms Excel in Nigeria.
2. Define Sole Proprietorship and Its Features

