

# Economics

## economies of scales

[Economics](#)



In addition to the major influences on costs of production associated with Delta, economies of scale are also relevant to this firm. Economies of scale operate to the left of  $Q^*$  or the minimum efficient scale of operations according to class lecture notes. So it is in firms best interest to expand and operate at a more efficient level. Delta is a Legacy Airline; because Delta is one of the larger airlines Delta's costs are expensive in terms of operation. According to lecture notes from class, economies of scale are characterized by the specialization and division of labor, technological or financial factors. Economies of scale occur when the long-run average total cost declines as output increases.

\*The price of oil is one of the major costs for airlines. \*The price of oil has gone up due to the state of the economy. \*Legacy Airlines acquire higher costs due to fuel, because they take on more flight routes. \*By operating at an efficient scale Delta would be able to spread its ATC (average total costs out during the long-run. \*By operating at an inefficient level diseconomies of scale Delta is acquiring higher cost. In relation to economies of scale, diseconomies of scale is an inefficient point on the long-run average total cost curve, because long-run average total costs increase as output increases.

For example, Delta merged with North West Airlines. Delta increased its scale of operations by merging with Northwest. So instead of reaping the benefits of a firm who would be operating at an economy of scale characterized by a specialized labor force, and efficient managerial duties, Delta is currently operating inefficiently. When firms merge the workforce typically increases

which results in inefficient management and the firm typically experiences quality problems.

Represented in figure 9-1 are the inefficient costs obtained by the Legacy Airlines that are operating at diseconomies of scale compared to the smaller Airlines who are operating at economies of scale and taking on fewer routes. Firms operating at diseconomies of scale typically have problems of coordination and communication according to chapter 12 found in our textbook.

Our group would recommend that Delta scale down it's size of operations so that it can reduce its costs and operate more efficiently. If Delta scaled back its scale of operations it could reduce the number of routes that it has taken which would result in smaller fuel costs. By scaling back operations Delta's workforce could limit themselves to specialized tasks and become more efficient at doing them.

The major difference between economies and diseconomies of scale is that economies of scale operate more efficiently than diseconomies of scale. In the long-run firms operating at economies of scale have average total costs that decline as output increase, while firms operating at diseconomies of scale average total costs increase as output increases in the long-run.