LAW OF VARIABLE PROPORTION AND LAW OF RETURNS TO SCALE

[FREQUENTLY ASKED QUESTIONS]

Subject	**:**	Business Economics
Paper No. & Title	**:**	101 **Microeconomics - I**
Unit No. & Title	**:**	3 **Production**
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FREQUENTLY ASKED QUESTIONS

Q-1. Define Law of variable proportion?

A-1. Keeping other factors of production fixed when only one variable factor of production is changed ,output initially increase more then proportionately, then proportionatally and finally less than proportionatally.

Q-2. What is increasing returns to variable proportion?

A-2. When one of the variable factor (labour) Iis increased output initially increase more than proportionatly is known as stage of increasing returns.

Q-3. What are causes of increasing returns to variable proportion?

A-3. Increasing returns takes place when more and more of variable factors are added to the fixed factors then fixed factors are used efficiently ,and variable factors are specialised perfectly which results in higher returns.

Q-4. What are the causes of negative returns to variable proportion ?

A-4. When more and more of variable factors are added to fixed factors in the later stage fixed factors are overburdened and marginal productivity declines,hence total production declines inspite of increase in variable factors.

Q-5. Explain the concept of Returns to scale?

A-5. In long run when firm increase all factors of production simultaneously and improve in its scale of operation then output increases initially at increasing rate then at constant rate and finally at diminishing rate.

Q-6. Why the stage of Diminishing returns to scale takes place?

A-6. In long run ,when firm grows large in its later stage it suffers from certain diseconomies of scale which result in diminishing returns to scale.

Q-7. What are economies of scale?

A-7. Economies of scale are the advantages the firm enjoys because of its large scale production.

Q-8. What are diseconomies of scale?

A-8. Diseconomies of scale are the disadvantages the firm incur during long term because of its large size.