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Law of Returns

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Law of Returns

Diminishing returns, also called law of diminishing returns or principle of diminishing marginal productivity, economic law stating that if one input in the production of a commodity is increased while all other inputs are held fixed, a point will eventually be reached at which additions of the input yield progressively smaller, or diminishing, increases in output.



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Law of Variable Proportions

The **law of variable proportions** states that as the quantity of one factor is increased, keeping the other factors fixed, the marginal product of that factor will eventually decline.



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Law of Returns to scale

“The term returns to scale refers to the changes in output as all factors change by the same proportion.”

“Returns to scale relates to the behaviour of total output as all inputs are varied and is a long run concept”



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3 Types

Increasing Returns to scale.

Constant Returns to Scale

Diminishing Returns to Scale



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Increasing Returns to Scale

Increasing returns to scale or diminishing cost refers to a situation when all factors of production are increased, output increases at a higher rate. It means if all inputs are doubled, output will also increase at the faster rate than double. Hence, it is said to be increasing returns to scale.



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Diminishing Returns to Scale

Diminishing returns or increasing costs refer to that production situation, where if all the factors of production are increased in a given proportion, output increases in a smaller proportion. It means, if inputs are doubled, output will be less than doubled.

If 20 percent increase in labour and capital is followed by 10 percent increase in output, then it is an instance of diminishing returns to scale.



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Constant Returns to Scale

Constant returns to scale or constant cost refers to the production situation in which output increases exactly in the same proportion in which factors of production are increased.

In simple terms, if factors of production are doubled output will also be doubled.



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THANK YOU