

Edexcel (B) Economics A-level
**Theme 2: The Wider Economic
Environment**

2.3 Productive Efficiency

2.3.4 Impact on costs and sales revenue

Notes



Impact on average costs

Increasing productivity results in a fall in average costs for the firm. Consequently, the firm might earn higher profits and they are therefore able to invest more. This might lead to further improvements in efficiency, so average costs become even less.

Falling average costs could also be passed onto consumers in the form of lower prices. This could make the firm more competitive in the market, so they can earn higher revenues and increase their market share.

Minimising waste of resources

Being more efficient will result in a reduction in waste. Moreover, the firm might be able to make the demand for their products more price inelastic by increasing brand loyalty and improving the quality of their products.

Competitive advantage of short product development lead times

The lead time is the time delay between a decision being made and the decision being carried out. Reducing this time could allow the firm to focus on the market more, which is important if the firm is operating in a dynamic market and it has to respond quickly to changes in demand. For example, in the technology and fashion industries where tastes change rapidly, firms have to have short lead times in order to remain competitive.

