

Impact of an Increase in Economies of Scale on Market Areas - Fixed Demand

1. Increase in scale economies lowers Average Production Cost.
2. Since Average Total Cost (ATC) = Average Production Cost + Average Travel Costs, the decline in Average Production Costs also reduces ATC.
3. The decline in ATC increases sales per store (q)
4. The increase in q will increase the market area since $M = q/de$
5. Each store needs a larger market area to sell its additional output.

Impact of a Decrease in Travel Costs on Market Areas - Fixed Demand

1. Since Average Total Costs (ATC) = Average Production Cost + Average Travel Cost, a decline in Average Travel Cost will reduce ATC.
2. The decline in ATC will increase sales per store (q)
3. The increase in q will increase the market area since $M = q/de$.
4. Each store needs a larger market area to sell its additional output.