STUDY MATARIALS FOR BA SUBSIDIARY ECONOMICS

PART – 1

PAPER - - SUBSIDIARY

TOPIC – LA OF RETURN

INTRODUCTION

When a firm changes its production keeping a factor of production fixed and other factors of production variable during short period and the operation of production function is called short run production function and such production function results into the operation of the laws of returns.

These laws of returns are of three types as given below:

(1) Law of Increasing Returns.
(2) Law of Constant Returns.
(3) Law of Diminishing Returns.

Modern economists consider that there is one law of production in place of these three laws of production. It is called law of variable proportions.

1- **LAW OF INCRESISING RETURN**:- According to this law of production when few inputs are kept fixed and other variable factors of production are changed, the increase in the production will be more than in proportion to the changed factors of production. For example, a firm employs labour and land is kept as a fixed factor of production. If the increase in the labour is by 10 per cent while the resultant output increases by 15 per cent, then it is said that the Law of Increasing Returns is operating.

2- **LAW OF CONSTANT RETURN:-** When the output of a firm increases in the same proportion in which the units of variable inputs are changed keeping the units of a fixed input constant, the operating law is called the Law of Constant Returns during short period. This law is the midpoint

between the law of increasing returns and the law of diminishing returns. For example, if the variable inputs are changed by 10 per cent and the output of the firm also increases by 10 per cent keeping the units of a fixed factor constant the law of constant returns will operate.

3- **LAW OF DICRESING RETURN**:- When the output of a business firm increases less than in proportion to the change in the units of variable inputs keeping other fixed inputs constant, the law is called the law of diminishing returns. For example, when the variable inputs are changed by 15 per cent but the resultant output changes by 10 per cent only then we can say that it is the Law of Diminishing Returns.