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The (normal) rate of capacity utilization at the firm level. (English) Zbl 1283.91094
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Summary: This paper examines the endogeneity (or lack thereof) of the rate of capacity utilization in the long run at the firm level. The cost minimizing firm has an incentive to increase the utilization of its capital if the rate of the returns to scale decreases as its production increases. The theory of production provides justification for this kind of behavior of economies of scale. In that way the desired rate of utilization becomes endogenous to variations in demand.

MSC:

91B38 Production theory, theory of the firm

91B32 Resource and cost allocation (including fair division, apportionment, etc.)

Keywords:

capacity utilization; cost minimizing firm; theory of production

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