Minimum Efficient Scale

Minimum Efficient Scale (MES)

The minimum efficient scale (MES) is best defined as the scale of production where the internal economies of scale have been fully exploited. The MES corresponds to the lowest point on the long run average cost curve and is also known as an output range over which a business achieves productive efficiency.

The MES is not a single output level – more likely we describe the minimum efficient scale as comprising a range of outputs where the firm achieves constant returns to scale and has reached the lowest feasible cost per unit in the long run.

The minimum efficient scale (MES) is the level of output at which a firm first experiences the lowest possible level of long run average. Beyond MES all potential economies of scale are exploited and unit costs minimized.

The MES must depend on the nature of costs of production in a specific sector or industry.

1. In industries where the ratio of fixed to variable costs is high, there is plenty of scope for reducing unit cost by increasing the scale of output. This is likely to result in a concentrated market structure – indeed economies of scale are a barrier to the entry of new firms because existing firms have achieved cost advantages and they then can force prices down in the event of new firms coming in!

2. In contrast, there might be only limited opportunities for scale economies such that the MES turns out to be just a small % of market demand. It is likely that the market will be competitive with many suppliers able to achieve the MES.

3. With a natural monopoly, the long run average cost curve continues to fall over a huge range of output, suggesting that there may be room for perhaps one or two suppliers to fully exploit the available economies of scale when meeting market demand.