
Expansion Economies

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Abstract

This paper develops a model that shows how and under what circumstances firms can realize expansion economies. In order to exploit economies of expansion while augmenting benefits, manufacturing firms tend to expand their economic activities to different locations, regions and countries. The level to which firms spread out in a region depends on the local demand. When such local demand is completely satisfied by the firm, it may decide to start business activities in other region. Firms' expansion process is limited by the size of the market and the world demand. The growth of the firm through expansion economies depends on the scale of the different elements that form the basic business unit. In this paper it is shown that expansion economies is a special case of increasing returns that cause neither dominant firm nor dominant technology.