

**See Especially the Newly Added Chapter on International
Wealth Disparities (Ch. 23)**

BASIC ECONOMICS

A Common Sense Guide to the Economy

Thomas Sowell

Fifth Edition

BASIC ECONOMICS

A Common Sense Guide to the Economy

THOMAS SOWELL

Fifth Edition

BASIC BOOKS

A Member of the Perseus Books Group

New York

Copyright © 2015 Thomas Sowell
Published by Basic Books,
A Member of the Perseus Books Group

All rights reserved. No part of this book may be reproduced in any manner whatsoever without written permission except in the case of brief quotations embodied in critical articles and reviews. For information, address Basic Books, 250 West 57th Street, 15th Floor, New York, NY 10107.

Books published by Basic Books are available at special discounts for bulk purchases in the United States by corporations, institutions, and other organizations. For more information, please contact the Special Markets Department at the Perseus Books Group, 2300 Chestnut Street, Suite 200, Philadelphia, PA 19103, or call (800) 810-4145, ext. 5000, or e-mail special.markets@perseusbooks.com.

Library of Congress Control Number: 2014945836

ISBN: 978-0-465-05684-2

add up, permitting larger enterprises to have either lower prices or larger profits, or both. Small retail stores have long had difficulty surviving in competition with large chain stores charging lower prices, whether A & P in the first half of the twentieth century, Sears in the second half, or Wal-Mart in the twenty-first century. The higher costs per unit in the smaller stores will not permit them to charge prices as low as the big chain stores' prices.

Advertising has sometimes been depicted as simply another cost added on to the cost of producing goods and services. However, in so far as advertising causes more of the advertised product to be sold, economies of scale can reduce production costs, so that the same product may cost less when it is advertised, rather than more. Advertising itself of course has costs, both in the financial sense and in the sense of using resources. But it is an empirical question, rather than a foregone conclusion, whether the costs of advertising are greater or less than the reductions of production costs made possible by the economies of scale which it promotes. This can obviously vary from one firm or industry to another.

Diseconomies of Scale

Economies of scale are only half the story. If economies of scale were the whole story, the question would then have to be asked: Why not produce cars in even more gigantic enterprises? If General Motors, Ford, and Chrysler all merged together, would they not be able to produce cars even more cheaply and thereby make more sales and profit than when they produce separately?

Probably not. There comes a point, in every business, beyond which the cost of producing a unit of output no longer declines as the