

**3** In April 2023, a French cosmetics firm merged with an Australian cosmetics firm. It is expected the merger will lower average total cost as the new firm is likely to benefit from greater internal economies of scale. A manager stated that a key aim is to make the firm's production more sustainable by using raw materials taken from renewable sources. In most countries, the cosmetics firm's products, including perfume, are taxed at a higher rate than food.

**(a)** Define *average total cost*. [2]

**(b)** Explain how using renewable raw materials may affect a firm's profits. [4]

**(c)** Analyse the internal economies of scale that a cosmetics firm could experience. [6]

**(d)** Discuss whether or not perfume should be taxed at a higher rate than food. [8]