

PRINCIPLES OF ECONOMICS

Lecture 41 INVESTMENT

November, 2015



TOPICS OF DISCUSSION

1. Investment

- Meaning and Types
- Autonomous Investment
- Induced Investment
 - Determinants of Induced Investment

INVESTMENT

➤ $Y = C + I$

➤ Investment refers to purchases by firms of new buildings and equipment and additions to inventories, all of which add to firms' capital stock.

➤ It leads to increase in production and income

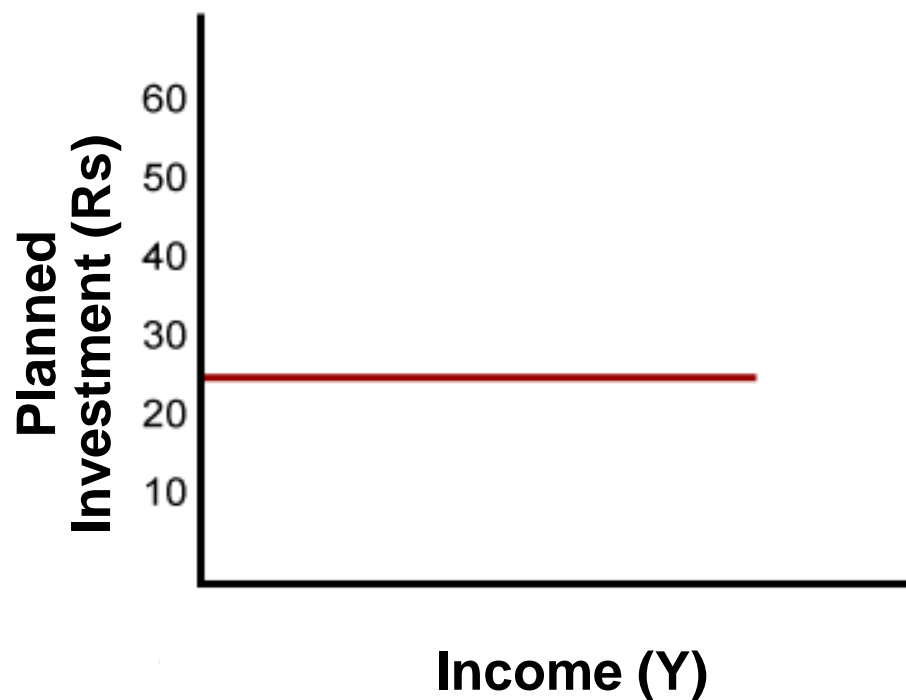
➤ **Gross Investment**- Total amount spent on new capital assets in a year

➤ **Net Investment** = Gross Investment – Depreciation

AUTONOMOUS INVESTMENT

Also known as desired or planned investment- refers to the additions to capital stock and inventory that are planned by the firms

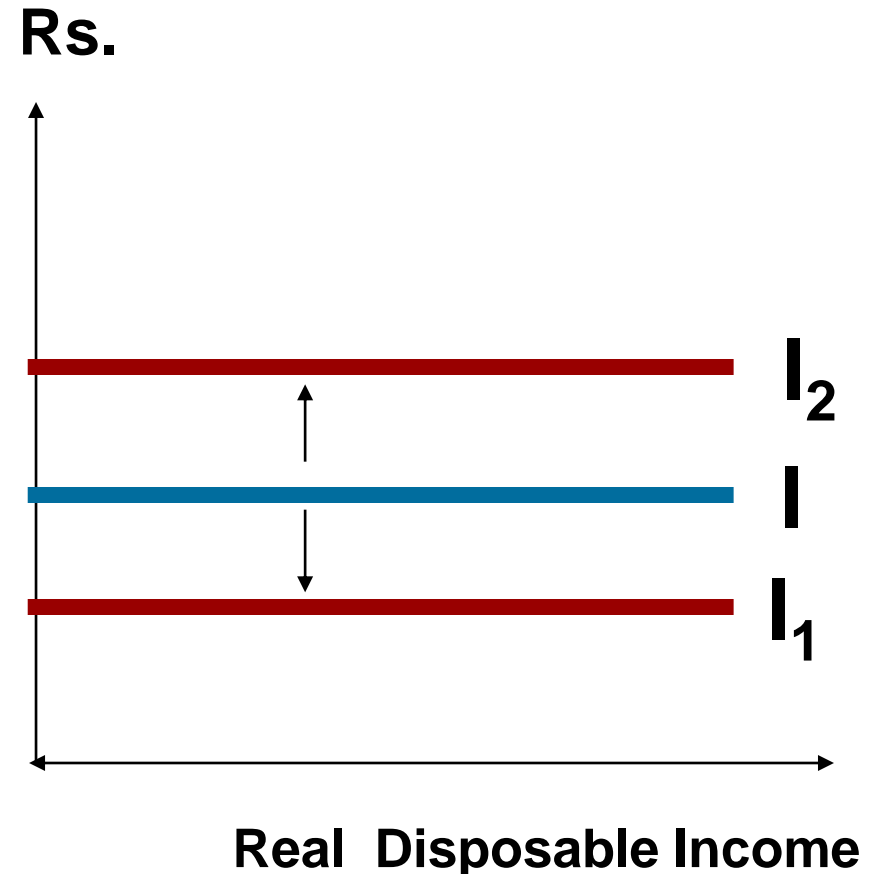
PLANNED INVESTMENT FUNCTION



Planned investment is fixed. It does not change when income changes.

AUTONOMOUS INVESTMENT

- Autonomous investment is related to the interest rate and business expectations.
- Change in these factors will lead to shift in autonomous investment
- It does not depend on disposable income



INDUCED INVESTMENT

- Investment which is dependant on income and profit
- Induced Investment is a function of income

$$I = f(Y)$$

- Factors affecting profit like prices, wages and interest also affect induced investment
- It depends upon- Average Propensity to Invest $API = I/Y$
& $MPI = \text{Change in } I / \text{Change in Income}$

DETERMINANTS OF INVESTMENT

- Interest rate- Inverse relationship
- Marginal Efficiency of Capital- Rate of return expected from an additional unit of a capital asset over cost
- Existing stock of capital
- Level of income
- Consumer demand
- Liquid assets
- Inventions, innovations & new products
- Growth of population
- State policy

THANK YOU 😊