SAVINGS AND INVESTMENT

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SAVINGS

- According to Keynes

  Saving in the current period more-over is defined as equal to current income minus current Consumption. Let income be called Y, Investment I, Savings S.

  Then $Y = I + C$

  Also $S = Y - C$ or

  $Y = S + C$

  Therefore $S = I$

- From the above two equations we can derive the conclusion that Saving is equal to investment.

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- Saving would imply :-
- Depositing the cash in a place where it is safe.
- Procuring minimum returns and suffering lesser risk.
- Keeping money handy for a time of emergency or a short termed requirement.

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- There are basically two types of Savings.

- Private Saving

  The amount of income which the households are able to keep after they have paid their taxes and and spent on consumption expenses.

- Public saving

  The amount of tax revenue which the Government is left with for spending is known as Public saving.

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- Factors that effect the amount of saving.

I) Level of income.

In Principle the level of income and consumption in a country depends on the National income of that country. There is a steep rise in consumption with the rise in income but the ratio of consumption is left low as the income keeps on growing. This is believed to initiate a rise in the savings.

Practically it has been observed that this notion is not fully correct and there are other factors which effect the amount of saving.

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As Professor Keynes has described :-

II) Objective Factors.

1. Net Income.

The Companies while distributing the profit dividends keep some of the profits in depreciation account or some other accounts. The net income of the shareholders is thus lesser in comparison to what they would be at the Gross income generated by the companies. This leads to a conclusion that savings are effected by Net income.

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2. Price-Level.

If the price level increases unaccompanied by a suitable rise in real income the level of savings tend to fall. People are bound to spend on the bare necessities and strike out non-essential expenses. This in turn lowers the demand followed by lower income and lesser employment which surely leads to lesser savings.

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3. Interest Rate :-

Higher interest rate tends to attract more and more savings. It motivates people to cut expenses on their consumption and save more. Lower interest rates seem to attract lesser savings.

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4. Government Tax Policy :-

Tendency to save is negatively effected by rise in the taxes on income, profit, property and manufacturing etc. and people tend to spend more on consumption.

People may be forced to save to save on their taxes but this does not help in increasing savings by choice.

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5. Secure Future :-

When people believe that they have a nice and secure future they will not opt to save while if they feel insecure about their future they will save more and more.

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III) Subjective Factors :-

1. Precautionary Measures – People tend to save for hard time in future.
2. Foresightedness – People tend to save for their old age.
3. Profits – People invest in shares, mutual funds etc. in want of supplementary income.
4. Financial Independence – People save so that they can be free of future financial burdens.
5. Entrepreneurial Motive – People want to save for a business they would want to start in future.

SAVINGS

Importance of Saving.

As opposed to the Conservative Economists Prof. Keynes calls the personal savings a 'social evil'. He was of the view that only a rise in demand could give rise to employment generation and increase the income level. In modern economy every country is interested in creating resources to carry on the development policy the importance of savings is again being taken seriously.

Investment

- As defined by Professor Keynes :-

"…We must mean by this(investment) the current addition to the value of the capital equipment which has resulted from the productive activity of the period."

This is supported by Dudley Dillard as following :-

"Investment is the net addition to the existing stock of real capital assets."

Investment

Gross Investment :-

It implies the total expenses on buying capital goods within a fixed period of time and without taking depreciation into consideration.

Net Investment :-

Depreciation is taken into account while calculating Net Investment. It is depreciation minus Gross investment.

Investment

Planned Real Investment :-

The intentional investment made to increase production and to procure profits in future is known as planned real investment.

Unplanned Real Investment :-

When traders are left with unsold manufactured goods due to fall in demand or in Keynes's words, when liquid capital is accumulated it is known as unplanned real investment.

Investment

Induced Investment :-

It can be understood as a reactionary investment responding to the level of National income or the current rate of interest.

Autonomous Investment :-

Autonomous investment does not depend on the level of income. When the investment depends neither on income nor the rate of interest then such investment is known as autonomous investment.

Investment

Factors Effecting Investment :-

1. Rate of Interest :- Lesser the interest rate more the investment.
2. Marginal Efficiency of Capital :- It is the anticipation of possible profits by induction of fresh capital.
3. Facilities for Investment :- When there are chances of new investments, economic sectors have not reached stagnation and human resource is abundantly available.

Contd.

Investment

Contd.

4. Technological Development :- Dependent on the fact whether the development is Labor or Capital intensive. Latter will support more investment.

5. Population :- Rise in population seems to increase demand and thus increased production which needs more investment.

6. Government Policy :- If the policy supports manufacturers by providing them land, Electricity, Water, raw material etc. it will increase the investment.