CHAPTER 29 : Investment

Key terms

1. Accelerator coefficient : the capital-output ratio
2. Accelerator theory : the theory that the level of investment is related to past changed in income
3. Capital -output ratio : the ratio between the amount of capital needed to produce a given quantity of goods and the level of output.
4. Depreciation : the value of the capital stock, which has been used up (depreciation) and the creation of additional capital
5. Investment : the addition to the capital stock of the economy
6. Net investment : gross investment minus depreciation
7. Retained profit : profit kept back by a firm for its own use that is not distributed to shareholders or used to pay taxation

1. A definition of investment

: is the addition to the capital stock of the economy- factories, machines, offices, and Stock of materials used to product other goods and services.

2. Factors that impact on investment

Factors	Description
1. The rate of interest	• Lower rate of interest, lower cost of borrowing • Firms may borrow to invest more
2. The rate of economic growth	• If the economy is expanding, firms will need to increase their investment to have the capital equipment to produce more goods and services.
3.Cost	• Increases in cost, such as wages or raw materials, will reduce the profitability or rate of return on an investment, all other things being equal.
4. Business expectations and confidence	• If firms expect their sales to increase, they are more likely to to invest in new capital equipment.
5. The world economy	• If the world economy is growing rapidly, demand for export is likely to increase. This in turn should lead to a rise in domestic investment.
6. Retained profit	• If firms have higher retained profit, firms will have more money to invest in capital
7. Government Regulation	• If government provides eg. Subsidy, firms are likely to invest more.