

Investment Function

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What is investment function?

Investment function represents the willingness or desire of firms to invest in a given time period

Investment is an addition to the existing stock of real assets (like creation of new buildings, machinery etc.)

According to Keynes, investment is determined by ----- Marginal Efficiency of Capital (MEC) or Rate of Return and Rate of Interest

Firms undertake investment as long as return from investment is greater than cost i.e. rate of interest on borrowing fund

Investment is the relationship between investment demand and rate of interest

Autonomous Investment

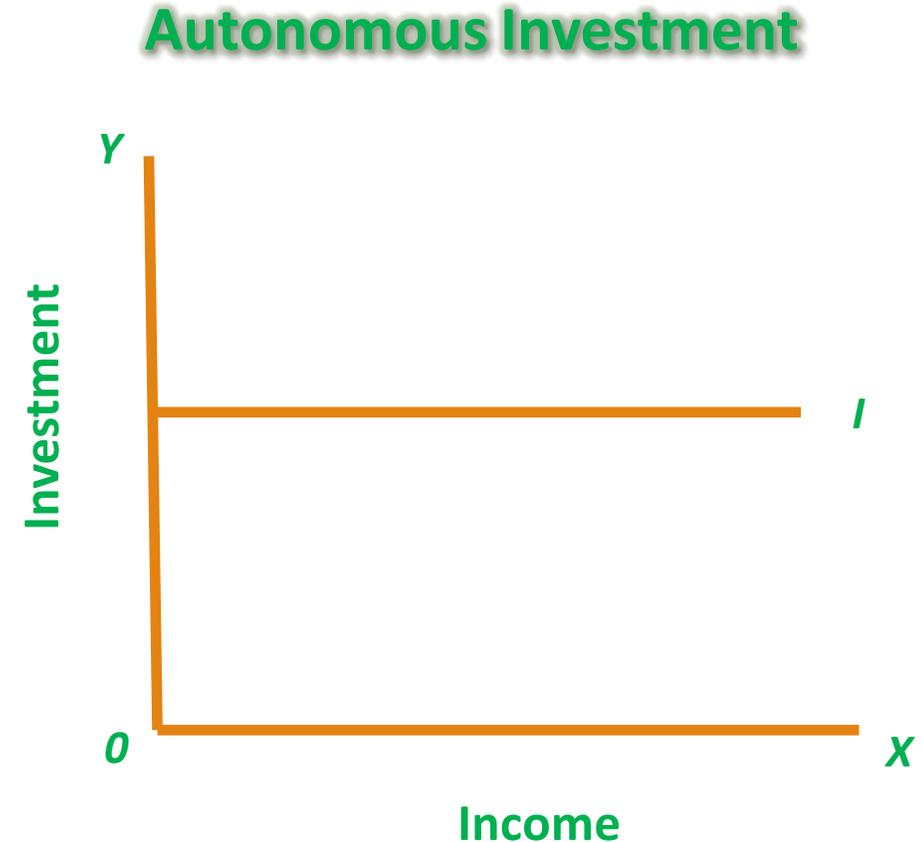
It is the investment that is independent of income

It is income inelastic

It is not affected by change in income level

Investment curve is a horizontal straight line parallel to the x-axis

Autonomous investment is affected by factors like change in population size, public utility works

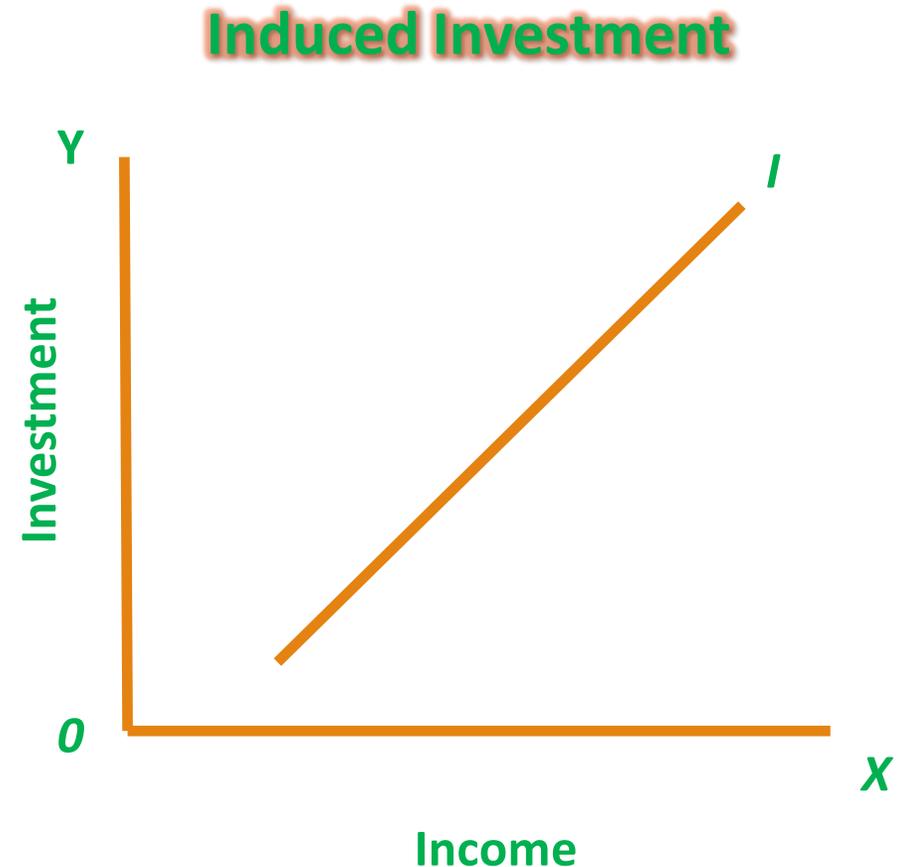


Induced Investment

When investment depends on income level, it is called induced investment

As income increases, investment also increases

There is a direct relationship between income and investment



Distinguish between Induced and Autonomous Investment

Depends on level of income, positively related to the level of income in an economy

It is independent of the level of income, not affected by change in the income level

It is determined by the consideration of profit

It is determined by the consideration of social welfare

Ex-ante Saving and Investment

Refer to the planned saving and investment or desired saving and investment

Ex-ante saving is what the savers plan to save at different levels of income in the economy

Ex-ante investment is what the investors plan to invest at different levels of income

Level of ex-ante saving may or may not be equal to ex-ante investment

Ex-post Saving and Investment

Refer to actual savings and investment in the economy

Ex-post savings = Ex-post Investments

They are bound to be equal to each other at all levels of income in the economy

Questions

Define investment.

What is autonomous investment? Explain with diagram.

Draw diagram to show what is induced investment.

Distinguish between induced investment and autonomous investment.

What is the difference between planned and actual investment.

Thank You

