Indian Economy CLASS-9

Date
12/Aug/2020

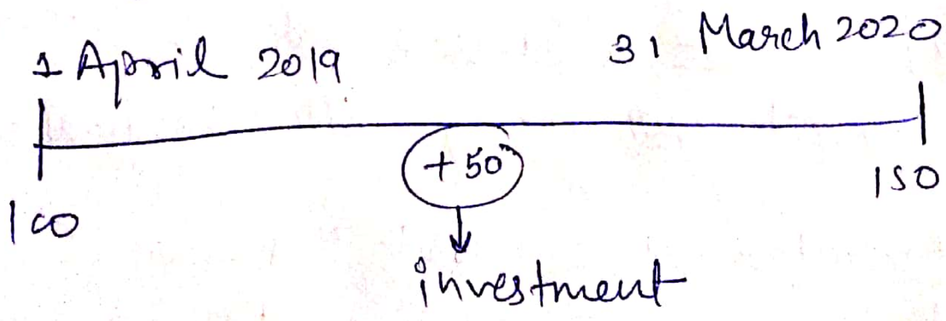
Theme – Explaining Relationships among macroeconomics variables and working of economy.

Investment

Investment
- Autonomous Investment
- Induced Investment

⇒ **Capital**
- Capital is the means of production
- Capital is the stock concept

⇒ **Investment**
- It is the Rate of capital formation.
- It is a change or increase in stock of capital during a given period of time.



Autonomous Investment

Autonomous Investment - If investment does not depend on any factor like market rate of interest, income etc. than this type of investment is known as ~~kn~~ Autonomous investment.

~~does not depend on an~~

Autonomous investment generally done by the government and it is the policy decision of the government.

Types of Rate of Interest

1. Market Rate of Interest (OR) Lending Rate of Interest
2. Deposit Rate of Interest / Saving Rate of Interest
3. Policy Rate of Interest / Policy Rates.

1.# Market Rate of Interest

It is the rate of interest at which borrowers borrow from the bank.

It is the rate at which bank gives loan to borrower.

2. Deposit Rate of Interest → It is a rate of Interest at which we deposit our money with the banks

3. Policy Rate of Interest → It ~~is~~ refers to that rate of interest at which transaction is going on between the RBI and banks or financial institutions.

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eg: Repo Rate, Bank rate, Reverse Repo Rate, MSF.

Investment

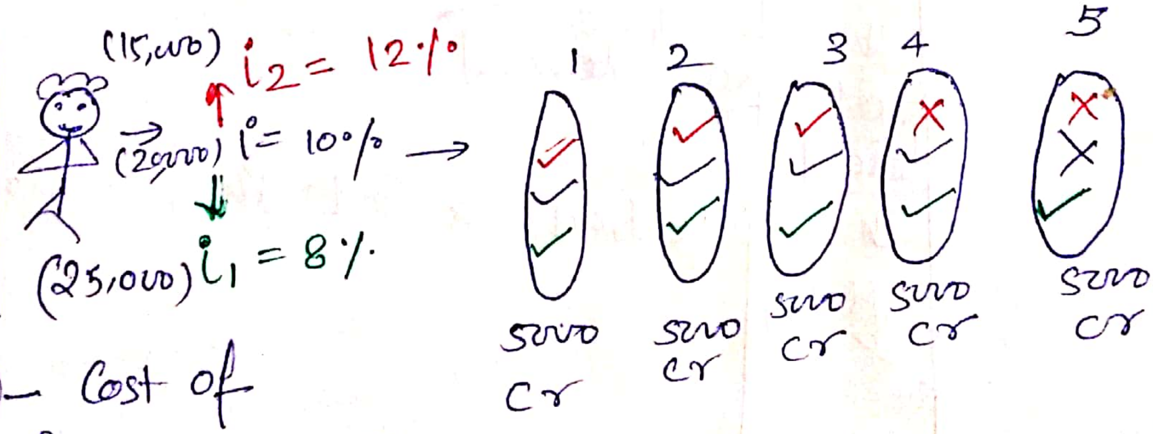
Investment is the function of market Rate of interest or lending Rate of Interest.
Investment and market Rate of interest are inversely related. If rate of interest increases then investment will decrease and if market rate of interest decreases then investment will go up, when other things remaining same.

$$I = f(i)$$

I = investment
i = market rate of interest

$i\uparrow = I\downarrow$ } other things remaining same
$i\downarrow = I\uparrow$

Cost & Benefit



(i) – Cost of Borrowing money from the borrower

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RBI ⇒ MS↑ ⇒ i↓ ⇒ I↑ ⇒ AD↑ ⇒ Y↑
⇓
Employment↑

Money Supply → C↑ — AD↑ ⇒ Higher Inflation

$$\underbrace{AD}_{\uparrow} = C + \underbrace{I}_{\uparrow} + G + X - M$$

Inflation

Iflation is the rate of increase in price level.
It is the process of increase in the price level.
It does not mean high price level.

Inflation
↑
Excess Demand
AD > AS

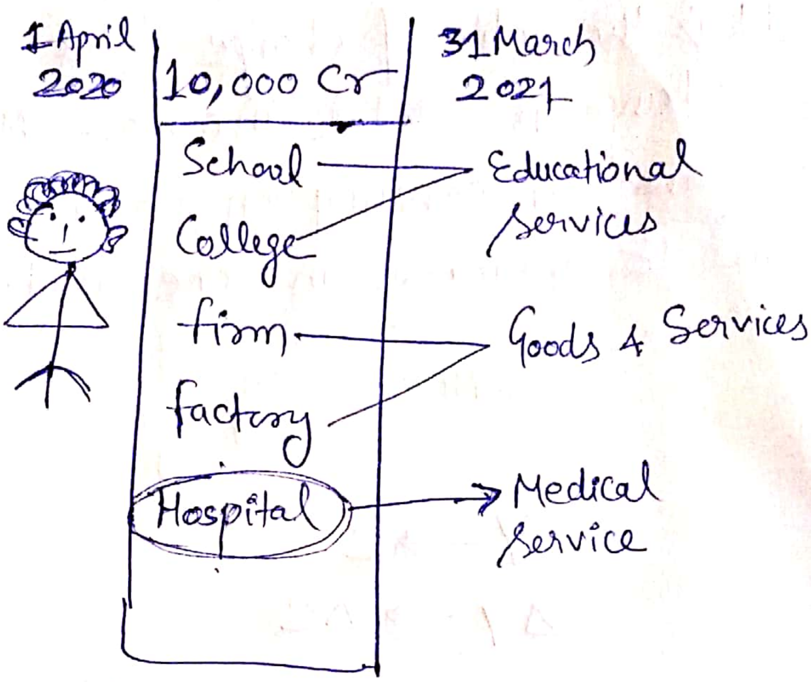
AD	AS↓
AD↑	AS↓
⇓	⇓
AD>AS	AD>AS
⇓	⇓
excess demand	Excess demand
⇓	⇓
Inflation	Inflation → Cost Push Inflation.

Inflation → Demand Pull Inflation

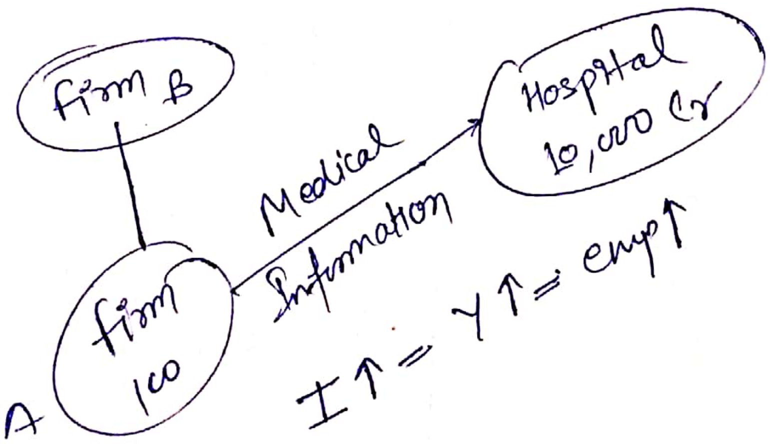
$I\uparrow = AD\uparrow$

$I\uparrow \rightarrow AD\uparrow$

$I\uparrow \rightarrow$ Production Potential $\uparrow$



Investment Multiplier



$$\boxed{\Delta Y = \frac{1}{1-C}\,\Delta I}$$

$$\boxed{\text{Investment Multiplier} = \frac{1}{1-C}}$$

C → marginal propensity to consume

$C = 0.8$

$\Delta I = 5000$

$$\Delta Y = \frac{1}{1-0.8} \times 5000$$

$$= \frac{1}{0.2} \times 5000 = 5 \times 5000 = 25,000$$

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$C \Rightarrow MPC$

It is the ratio of change total consumption to Change in total income. MPC represents change in consumption or increase in consumption due to increase in one unit of income

$$\boxed{C \Rightarrow MPC = \frac{\Delta C}{\Delta Y}}$$

$$Y \rightarrow C$$

$$\Delta Y \rightarrow \Delta C$$

$$1 \longrightarrow \frac{\Delta C}{\Delta Y} = MPC$$

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