Assignment = 4 Micro-Economics

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CAPITAL FORMATION

Capital formation means increase in stock of capital in a country.

"The net accumulation of capital goods, such as equipment, tools, transportation assets and electricity during an accounting period for a particular country"

Generally the higher the capital formation of an economy can grow its aggregate income.

PROCESS :-

Capital formation takes place when individuals and nations do not consume the whole of their current income. They save a part and invest it. Capital formation occurs when the population has enough income to save and invest. It starts with the creation of savings and is realized when those savings are invested.

IMPORTANCE:-

Capital Formation is very core of economic development. Use of capital equipment greatly increases labour's productivity. So capital accumulation becomes a pre-requisite for increasing the production capacity of a country and raising living standards.
Capital Formation makes it possible to produce goods on larger scale and lower costs.
Capital formation leads to more money swirling around the economy. The accumulation of capital goods translates to investment and th production of more goods and services, which should boost the income of population and

stimulate demand.

SOURCES:-

Some sources are:-

1) Domestic Sources (Individual, Corporate, Public Savings)
2) External Sources. (Foreign loans, Private investment)

EXAMPLES:-

Some examples are:-

Gross Fixed Capital Formation

1) Acquiring buildings and machinery to produce more goods.

2) Changes in Stocks (Storing up goods for sale at a later date)

3) Acquistion of valuebles (such as gems, antiques and works of art).

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Joints Stock Companies:-

Business entity in which shares of the companies's stock can be bought and sold by share holders

A joint Stock Company is a business owned by its investors, with each investor owning a share of the company based on the amount that they've invested.

Characteristics:-

1) Shareholders of company had unlimited liability for company debts.
2) The shares of company are transferable
3) If company is public, its shares are traded on registered stock exchanges
4) Shares of private company are

transferable between parties, but limited by agreement. to family members.

TYPES:-

1) Registered Company.
2) Chartered Company.
3) Satutory Company.

*) BENEFITS :-

1) Access large amounts of money via shareholders.
2) Shareholders have direct say in decisions related management of company
3) Shares can be sold and bought freely on stock exchanges.
4) New shares can be issued if company requires addition capital.