Dr.Surendra Kumar Class-M.A.Sem-IV

Investment Criteria

Polak divides investment into three categories:

(i) Investment, yielding goods which add to the exports of a country or replacing goods formerly imported. The next effect of such an investment will be to create export surplus.

(ii) Investment, replacing goods previously sold in the country or exported from the country; the effect of this sort of investment on balance of payments will be neutral.

(iii) Investment, which would result in addition of goods to those sold in the country and in excess at demand. Such an investment will have a negative effect on the balance of payments.

The first two types of investment should be preferred because they will have a favourable effect on balance of payments. The third type may be avoided. Thus according to this criterion investment projects with least bad effects on the balance of payments must be chosen.

Limitations:

The concept of payment criterion is subject to following drawbacks:

1. Investment may raise real incomes without increasing money incomes which can be spent on imports here and fear of increased imports there only when money incomes rise.

2. If money incomes rise along with real incomes, import may not rise.

3. The investment may also lead to less imports rather than investments of first type.