

Investment Criteria

Thus, the social marginal product is divided into three elements, viz.:

- (a) Value added in the domestic economy for unit of investment;
- (b) Total operating costs per unit of investment; and
- (c) Balance of payments premium per unit of investment.

Equation (5) can be expressed as

$$SMP = (V/K) (V-C/V) + B_r/K \dots(6)$$

SMP is thus the product of the percentage margin of social value over cost ($V-C/V$) and the rate of capital turnover plus the balance of payments premium. This form of equation shows that a decrease in the rate of capital turnover may be offset by a proportionate increase in the value margin and vice-versa.

Limitations:

- (1) It presupposes the attainment of an optimal income distribution by purely fiscal means.
- (2) The concept is vague. It is less definite than the private profit criterion although it is more generally applicable.

(3) The market prices do not exactly reflect social values and as such, quantitative assessment of the costs and benefits arising out of investment is extremely difficult;

(4) It is difficult to measure the costs of a larger number of items which contribute to the total cost of a project;

(5) It is pointed out that the effect of an investment on balance of payments arises not only from the cost incurred in connection with installation and operation of the plant but also on the availability of foreign loans, their expected flow over time and conditions of repayment;

(6) This criterion does not consider structural interdependence and the nature and value of external economies.