SUMMARY AND CONCLUSIONS

In the present study three important aspects of investment behaviour of Indian sugar industry namely investment, dividends and external finance are analysed in the framework of flexible accelerator model. The study is conducted for time series, cross section and pooled time series cross section data of public limited sugar companies which are non-governmental with a paid-up capital of Rs. 5 lakhs or more. The data coverage is from 1965-66 to 1986-87. In the models on fixed investment and inventory investment, the lag structure is extended to the financial variables also. Linear as well as log-linear specifications of the models are estimated, though only results of linear forms are presented. The equations are estimated by the method of ordinary least squares. The simultaneous equations system constructed for examining the interdependence of the three decisions is estimated by two - stage least squares.

In the analysis of fixed and inventory investment, importance is given to the role of demand factors. The role of dividend policies and investment outlays on external finance is also examined. The interaction between fixed and inventory investment expenditures is examined. Similarly, the interdependence among investment, dividends and external finance is also studied.
The study reveals that demand considerations in the long run have the least importance in the fixed investment decisions. Also, financial considerations far outweigh demand factors in fixed investment decisions. The results show that external finance is preferred to internal finance in Indian sugar industry. In inventory investment decisions, financial flows prove to be very important determinants.

The results indicate that firms do not follow stable dividend policies in respect of fixed capital investment decision in the long run. The reason is that investment and external financing decisions are not influenced by and at the same time do not influence dividend policies. Thus, in the disposition of profits, dividend decisions seem to be autonomous and therefore business savings remain residual in character.

The analysis of external finance reveals that fixed and inventory investment expenditures exert demand pull influence on external financing activity. Dividend policies however, have not shown any effect on external finance.

The effects of accelerators in the analysis of fixed investment have not been significant. The reason for this may be due to the extreme form of controls on price and distribution of sugar, imposed by the government from time to time. In the case
of fixed investment, the lag structure is extended to four periods. The results, however, show that the lags of different variables do not produce significant effects on fixed investment beyond a period of two years. The other financial variables — profits and retained earnings have not exerted any influence on fixed investment. Of the three cases studied viz., cross section, time series and pooled, the first one showed better results in terms of summary statistics.

In inventory investment analysis also, the accelerator has not exerted any influence on inventory investment. Unlike in the case of fixed investment, the financial flows both internal and external, prove to be very important determinants of inventory investment. However, the lagged variables had not registered any influence on inventory investment. This implies that there are no long term lags or delays in orders and deliveries of inventories in Indian sugar industry.

In the analysis of external finance, the results establish that demand for external finance is inversely related to internal sources of finance. Both fixed and inventory investment expenditures have significantly influenced external financing activity. This has been more so in the case of inventory investment. The principle of increasing risk enunciated by Kalecki, found support in the analysis of external finance.
The simultaneous equation model constructed to examine the inter-dependence of the three decisions, viz., investment, dividends and external finance, has been estimated using the 2SLS method. The results show the absence of a complete inter-dependence among all the three decision variables investment, dividends and external finance. However, interdependence between pairs of these variables (not involving dividends) is observed. Analysis of both OLS and 2SLS results show that fixed and inventory investment bear an inverse relationship between them. Similarly, inter-dependence between investment and external financing decisions is observed. However, there is no direct dependence between investment and dividend policies. Dividend policies are found to be autonomous of fixed and inventory investment decisions. The effects of accelerators in explaining fixed and inventory investment have not been observed in Indian sugar industry.