CHAPTER-4
SAVING AND INVESTMENT BEHAVIOUR SINCE 1991

This chapter analyzes saving and investment behaviour in India, trend and composition of gross domestic savings, structure of households’ gross financial savings and investment behaviour since 1991.

4.1 Economy of India

The economy of India is the tenth-largest in the world by nominal GDP and the third-largest by purchasing power parity (PPP) The country is one of the G-20 major economies and a member of BRICS. On a per-capita-income basis, India ranked 141st by nominal GDP and 130th by GDP (PPP) in 2012, according to the IMF. India is the 19th-largest exporter and the 10th-largest importer in the world. The economy slowed to around 5.0% for the 2012–13 fiscal year compared with 6.2% in the previous fiscal. According to Moody's, the Economic Growth Rate of India would be 5.5% in 2014-15. On 28 August 2013 the Indian rupee hit an all time low of 68.80 against the US dollar. In order to control the fall in rupee, the government introduced capital controls on outward investment by both corporate and individuals. India's GDP grew by 9.3% in 2010–11; thus, the growth rate has nearly halved in just three years. GDP growth rose marginally to 4.8% during the quarter through March 2013, from about 4.7% in the previous quarter. The government has forecast a growth rate of 6.1%–6.7% for the year 2013–14, whilst the RBI expects the same to be at 5.7%. Besides this, India suffered a very high fiscal deficit of US$ 88 billion (4.8% of GDP)
in the year 2012–13. The Indian Government aims to cut the fiscal deficit to US$ 70 billion or 3.7% of GDP by 2013–14.

The independence-era Indian economy (from 1947 to 1991) was based on a mixed economy combining features of capitalism and socialism, resulting in an inward-looking, interventionist policies and import-substituting economy that failed to take advantage of the post-war expansion of trade. This model contributed to widespread inefficiencies and corruption, and the failings of this system were due largely to its poor implementation. In 1991, India adopted liberal and free-market principles and liberalized its economy to international trade under the guidance of Former Finance minister Manmohan Singh under the Prime Ministrship of P.V.Narasimha Rao, who had eliminated Licence Raj, a pre- and post-British era mechanism of strict government controls on setting up new industry. Following these major economic reforms, and a strong focus on developing national infrastructure such as the Golden Quadrilateral project by former Prime Minister Atal Bihari Vajpayee, the country's economic growth progressed at a rapid pace, with relatively large increases in per-capita incomes. The south western state of Maharashtra contributes the highest towards India's GDP among all states. Mumbai (Maharashtra) is known as the trade and commerce capital of India.

4.2 Economic liberalization in India (since 1991)

Liberal economic policies, pursued by the government of India since 1991, were expected to help overcome, in the long run, the financial crisis facing the country. However, it was predicted that the likely effects of the policies on the labour market, in the short run, would be negative, almost devastating. The census of India
reveal female work participation to be declining since 1921, both as a percentage of workers to total female population and as a percentage to total labour force. The percentage of female to total labour force decreased from 34.44 in 1911 to 31.53 in 1961 and further to 17.35 in 1971. Since 1970’s the promotion of women into the workforce has been accompanied by ideologies that associate employment with female empowerment. Regardless of their ability to implement real changes, notions of female empowerment are now part of government vocabulary at national and state levels. Meanwhile, the percentage of female workers to total female population decreased from 33.73 to 27.96 and again to 11.87 respectively (ICSSR, 1988). The 1981 census showed a marginal improvement to 13.8% and further to 22.5% in 1991. The occupational structure of female work participation shows that about 80% of them are still engaged in primary sector (Economic survey, 1995) Indian women workers are heavily concentrated in this low productivity activity. In case of women workers, ever since India formally switched over to the new economic policies of globalization and structural adjustment (SAP), the academic community as well as activists in the women’s movement has been particularly concerned about its likely impact on Indian women workers. Globalization has and continues to have differential impacts on men and women (Basu, 1995). Since the mid 1980’s India has pursued a policy of economic liberalization, which is a dramatic reversal of earlier policies of protecting industrial capital. It has been argued that privatization of public sector enterprises, reduction in public sector investment and lower government expenditure on poverty eradication programs have not served the interests of women. The work participation scenario is changing in case of women workers due to changing living standards and growth of consumerism more
and more women are joining the work force and opt for either jobs or self employment. Women are working because of gross economic necessity, to raise standard of living, to make use of their qualification, to pass their idle time or to earn their livelihood. This takes into consideration three aspects of working women: how do they take their investment decision, working characteristics and how work affects their livelihood and decision making power of investment.

4.3 The Investment Function

Meaning of Investment-

In ordinary parlance, investment means to buy shares, stocks, bonds and securities which are already existing in stock market. But this is not deal investment because it is simply a transfer of existing assets. Hence this is called financial investment which does not affect aggregate spending. In Keynesian terminology, investment refers to real investment which adds to capital equipment. It leads to an increase in the level of income and production by increasing the production and purchase of capital goods. Investment thus includes new plant and equipment, construction of public works like drains roads, buildings etc. net foreign investment, inventories, and stocks and shares of new companies.

In the words of Joan Robinson “By Investment is meant an addition to capital, such as occurs when a new house is built or a new factory is built, Investment means making an addition to the stock of goods in existence”,

Types of Investment:-

After Keynes two types of Investment’s have been distinguished. First is Autonomous Investment and the second is Induced Investment.
1. Autonomous Investment:-

By autonomous investment is meant the investment which does not change with the changes in the income level and is therefore independent of income. Keynes thought that the level of investment depends upon Marginal Efficiency of Capital (MEC) and the rate of interest. He thought changes in income level with not affect investment. This view of Keynes's is leased upon his preoccupation with short – run problem. He was of the opinion that changes in income level will affect investment only in the long – run. Therefore, considering as he was the shorn – run problem he treated investment as independent of the changes in the income level. In fact the distinction between autonomous investment and induced investment has been made by post – Keynesian economists. Autonomous Investment refers to the investment which does not depend upon changes in the income level. This autonomous investment generally takes place in houses, roads, public undertakings and in other types of economic infrastructure, such as power, transport and communication. This autonomous investment depends more on population growth and more on population growth and technical progress than on the level of income. Most of the investment undertaken by government is of the autonomous nature. The investment undertaken Government in various development projects to accelerate the economic growth of the country is of autonomous.

2. Induced Investment:-

On the hands induced investment is that investment which affected by the changes in the level of income. The greater the level of income, the larger will be consumption of the community in order to produce more consumer goods, more
investment has to be made capital goods, so that greater output of consumer goods, becomes possible, Keynes regarded rate of interest as a factor determined induced investment. But the imperial evidence gathered so far suggest that induce investment depends more on income than on the rate of interest. This induced investment is undertaken both fixed capital assets in inventories. The essence induced investment is that greater income the level investment aggregate demand affects the level investment in the economy. The induced investment underlines the concept of the principle of accelerator, which is highly useful in explaining the occurrence of trade cycle.

4.4 Factors Affecting Savings

Despite the several motives to save money there are so many factors which affect savings. Some of them are as under:

1. Level of Income:

If the income of the individual is more than his requirement of money for expenditure then he can save more than that of an individual who belong to comparatively lower income group.

2. Willingness to save:

Level of income of an individual provides capacity to save one can not save unless one is not willing to save.

3. Social Security:

Willingness to save depends upon the safety and security structure provided to the men in society. Safety against health, disease, old age, disablement etc. are
the factors which inspire men whether to save or not. Higher level of social security leads to lower savings and vice-versa.

4. Political Environment:

Stability in the political system encourages the people to save and invest more money, while in the environment of instability consumption of people increase.

5. Religious factors:

Religious ethics play an important role in the process of savings. In the religious having the prohibition on earnings from interest, savings and investments will definitely be discouraged.

6. Demonstration Effects:

Display practices for status lead to wasteful expenditure in the society, a result of which is certainly less savings or dis-savings.
7. Population Growth:

Growing population creates more demand and the expenditure there of which ultimately decreases the capacity of men to save. Planned growth of population establishes the planned structure for savings and investment.

8. Fiscal Policy:

Government discloses its attitude towards savings and investments through its fiscal policy in the shape of tax incentives. More the incentives. More would be savings.

9. Other factors:

In addition to the above there may be several factors which affect the savings e.g. Economic system, Ego and Ambitions of the people, Attitude, and future requirements etc.

4.5 Factors Affecting The Investment

Apart from the tax – benefits the investment decisions of an individual are affected by the following factors:

1. Safety:

The very first objective of an investor is to keep his principal amount safe. The return of the initial amount must be assured. So the credibility of the institutions in which one proposes to invest his money becomes more important than any other oratorio.
2. Profitability:

After having assured of the safety of the principal sum – one may look into the expected returns, taking into account the tax benefits, if any certain investments such as units give tax free returns to a certain extent. Regularity and periodicity of returns are also to be considered and therefore one should always think not of the gross returns but the returns after tax. Some times changes in capital values ‘as in case of equity shares which may, generally appreciate in their value over time’ should also be considered to evaluate the profitability of an investment.

3. Liquidity:

As investment should be not only safe and profitable but quite liquid too. Thus can be measured in terms of the quickness of realizing the money back, whenever one may need it. Current, accounts in a bank and equity shares quoted on stock exchanges, are very liquid. If there is a loan facility (say up to a specified percentage of Investment) an investment may be considered liquid to that extent. For instance, on bank fixed deposit and National Savings certificates we raise loans up to 75 per cent of the value of the deposit.

4. Risks:

Every investment is a trade off between risk and return and so is exposed to one or another type of risk. In some cases, certain kinds of risk may be predominant and certain others may not be that significant. There are five major risks which may be present in varying degrees in different sorts of investments.

a. Non Payment Risk:
The risk of non payment refers to both the capital and the interest thereon for all the unsecured loans, like loans on the basis of promotes, fixed deposits with companies etc. this risk is very high.

b. Business Risk:

If a money is invested in business enterprises there is a risk that the business may fail and nothing or very little is received on pro – rata basis in case of bankruptcy of the firm. If the working of the company is not well and the company is not earning any profit than there will be a fall in market price of the share with the loss of divided thereto.

c. Inflation Risk:

Inflation is the greatest invisible risk. In simple words, inflation encourages dis savings and luxury consumptions. When the prices are shooting up the purchasing power of the money continuously.

d. Political Risk:

The government policy also affect the investment decision of an investor, for example one government may go and another may go and another may come with totally different political and economic ideologies and hence, one government may introduce legislation nationalizing some of the companies in which we have invested or another may pass an act granting debt – relief to certain section of society or another act fixing the ceiling of certain section of society, or another act fixing the ceiling of certain properties.

e. Social Risks:
There are certain social risks e.g. illegal encroachments by certain section of society, risk of theft for jewellery or risk of being cheated in the case of chit funds etc.

A careful assessment of degree in every investment should be made while taking any decision for investment. In fact, the perception of a risk is primarily, an attitude of the investor. The attitude to investment differs from individual to individual.

5. Returns:

Our main purpose of investing the savings is not just to protect them, but to earn returns on them, returns are of two types return before tax and returns after tax. Since certain types of return are exempted from tax (either partially or fully). A careful and comparative analysis of the returns from different types of investments is to be made before taking decisions for investments. Some important techniques of calculating the returns are us under:-

a. Simple Interest:

This is also known as simple rate of return. For example Rs. 1000 is invested @ 15% P.a (simple interest) for five years. The total sum will be equal to Rs. 1750/- at the end of five years. The simple interest during these five years is Rs. 750.

But it’s very simplicity lies the catch. After all, the yearly interest also belongs to the investor and thus he is entitled for further interest @ 15 per cent.

b. Compound Interest:
There must be interest on interest on interest. Not only the initial money should make more money but the interest money also should earn more money. Before making decisions for investment calculation of compound interest should be made. Gaining will definitely be more if the interest is compounded more frequently than once a year.

But the compound interest techniques becomes rather cumbersome and complicated when:

1. The investment has to be made in two or more installments or / and

2. The returns to the investor are periodically received in equal or varying amounts.

c. **Discounted cash flow Techniques:**

To tackle such complicated problem’s, mentioned above, the Discounted cash flow (DCF) techniques has to be used. This method taken into account the "time – value of money". It is just the reverse of the compounding techniques. The compound method tells the future value of the present money, whereas the D.C.F. method tells the present value of the money to be received in future.

d. **Holding Period Return (HPR):**

The overall return on the investment is another important factor assess the return on an investment. Total income (**interest / dividend plus capital gain, if any**) during the entire holding period of an investment is the overall return. This can be computed as under:

\[
HPR = \frac{\text{Total Income during the holding period} \times 100}{\text{Initial Investment}}
\]
6. Other Factors:

Of course, factors mentioned above are most important and therefore, must be considered first while making an investment decision. But there are certain factors too that have to be taken into account before arriving at the final decision for investments.

a. Marketability:

If provides the liquidity dimension to the investment. If a buyer cannot be found readily than it would be difficult to get the money back as and when it is needed.

b. Initial Investments:

The quantum of the initial payment is a very important factor in taking decisions for investment as in certain kinds of investments the entire money is to be paid in a lump sum at the very first stage e.g. fixed deposit or purchasing of securities etc., and in some cases payment is made in installments e.g. in contribution to Provident fund, Recurring Deposit, Life Insurance, Policy etc.

c. Tax Benefits:

Some investments are entitled to tax benefits … the very amount of investment may be deductible from taxable income or the interest / dividend there on may be tax free. Some investments are exempted from wealth tax and gift tax. These tax benefits should be carefully examined in depth.

d. Loan facility:

This factor also relates to the liquidity of the investment. Certain types of investment can be pledged to raise loans when ever money is needed. For instance,
banks are prepared to give loans on Life Insurance Policies, Units, Securities, Equity share and jewellery etc.

**e. Age and Needs of Investor:**

A person relatively young *(say less than 40 years)* can afford to experiment. Even if he loses money that will not affect him in the long run. Risk taking capacity at this age is surely better than that of a person in his rate **40s** or early **50s**. A person nearing his retirement age has to plan for a peaceful and comfortable life after retirement. He wants more safety and liquidity with modest returns.

**f. Social Conditions:**

The changing social conditions affect the investment patterns. For example ….. once upon a time, agricultural land was a good investment; and urban real estate was also good. But today, with the land ceilings and other progressive legislations, social conditions have changes. Jewellery has become rather out of fashion; and it has become a securities risk for ladies to wear jewellery and go out operations of rural banks has made easies reach of rural people to banks and thus it affects the mode of savings and investments of people.
g. Past Experience and Objective of Investment:

The past experience always affects the behavior of a man even of an investor too. The share market, the chit – fund, the race – course or the card – room etc. may have the different effects on each and every person. One, always, learns by his experiences and thus, affects his investment decisions.

4.6 Saving and Investment Behaviour Since 1991

4.6.1 Report of the Working Group on Savings during the Twelfth Five-Year Plan (2012-13 to 2016-17) -

While framing the Report of twelfth plan, the Working Group took note of the following. First, the Mid-term Appraisal of the Eleventh Plan had attributed India’s superior growth performance and resilience to shocks, to strong macro-fundamentals including the high level of domestic savings, resulting from substantial household savings and the sharp improvement in public savings and private corporate sector savings in the recent past. Second, the draft Approach Paper to the Twelfth Plan, which was released in September 2011, envisages two alternative targets of real GDP growth during the Twelfth Plan viz.; 9 per cent and 9.5 per cent. While highlighting the healthy increase in aggregate savings and investment rates particularly in the private sector, the Approach Paper cautions that, ‘...[t]he current situation of high inflation and tightening of monetary policy at the domestic level and uncertainty in the global financial markets require a careful appraisal of the saving investment prospects for the Twelfth Plan period...’. The Approach Paper also underscores the need to step-up investment rates, especially in areas where supply side bottlenecks could trigger inflation, in order to sustain high rates of growth of 9
per cent or higher, while maintaining moderate inflation. Third, the data gaps in the compilation of savings and investment in India, as highlighted by the observations of the High Level Committee on Estimation of Saving and Investment (Chairman: Dr. C. Rangarajan), 2009, need to be acknowledged for prognostications. Fourth, while noting that past empirical studies have not been unanimous on the effect of inflation on private savings, the Working Group took cognizance of recent evidence, as articulated in the RBI’s Annual Report 2010-11, which shows the adverse impact of inflation on household financial savings. Fifth, the rapid changes in the macroeconomic and policy environment in the recent period and the structural breaks in the data on sector wise savings in India pose challenges not only to technical projections of savings over the medium-term but also to judgments regarding the savings outlook.

**4.6.2 India’s Savings Performance over the Five-Year Plans**

Over the Eighth to the Eleventh Plan so far - an 18-year period that coincided with the structural reforms process - the average rate of Gross Domestic Savings (GDS) increased by around 14 percentage points. This was higher than the increase of around 11 percentage points in the GDS rate that occurred over the First to the Seventh Plans, a period of around 40 years. The maximum increase (of around 8 percentage points) in the average GDS rate occurred over the Tenth Plan (2002-2007)
## Table 4.1: India’s Average Savings Rates over the Five-Year Plans

<table>
<thead>
<tr>
<th>Five-Year Plan</th>
<th>Gross Domestic Savings Rate (per cent)</th>
<th>Average annual rate of change in the savings rate (percentage points)</th>
</tr>
</thead>
<tbody>
<tr>
<td>First Plan (1951-56)</td>
<td>9.2</td>
<td></td>
</tr>
<tr>
<td>Second Plan (1956-61)</td>
<td>10.6</td>
<td>0.3</td>
</tr>
<tr>
<td>Third Plan (1961-66)</td>
<td>12.1</td>
<td>0.3</td>
</tr>
<tr>
<td>Fourth Plan (1969-74)</td>
<td>14.7</td>
<td>0.5</td>
</tr>
<tr>
<td>Fifth Plan (1974-79)</td>
<td>18.5</td>
<td>0.8</td>
</tr>
<tr>
<td>Sixth Plan (1980-85)</td>
<td>17.9</td>
<td>-0.1</td>
</tr>
<tr>
<td>Seventh Plan (1985-90)</td>
<td>20.0</td>
<td>0.4</td>
</tr>
<tr>
<td>Eighth Plan (1992-1997)</td>
<td>22.9</td>
<td>0.6</td>
</tr>
<tr>
<td>Ninth Plan (1997-2002)</td>
<td>23.6</td>
<td>0.1</td>
</tr>
<tr>
<td>Tenth Plan (2002-2007)</td>
<td>31.3</td>
<td>1.5</td>
</tr>
<tr>
<td>Eleventh Plan so far (2007-2011)</td>
<td>33.7</td>
<td>0.6</td>
</tr>
</tbody>
</table>

**Source:** Central Statistics Office

### 4.6.3 Trend and Composition of Gross Domestic Savings

The Gross Domestic Savings (GDS) rate has exhibited a generally upward trend since the 1950s, with some intermittent sharp escalations, notably over the period 2002-03 to 2007-08. The composition of GDS shows the continued predominance of household sector savings (at around 70 per cent), notwithstanding a reduction in its share from the peak attained in 2001-02 (over 94 per cent). After the 1990-91, the share of the private corporate sector in GDS has exceeded that of the...
public sector, in contrast to the trends prevailing earlier. These trends are explained in subsequent sub-sections.

4.6.4 Contrasting Movements in the Savings of the Household, Private Corporate and Public Sectors

The rapidly evolving macroeconomic and policy environment has been associated with contrasting movements in the rates of savings of the household, private corporate and public sectors. As evident from , the years 2002-04 could be viewed as a break point in the trends in the savings rates of the three sectors. While household savings has continued to account for the predominant share of gross domestic savings over the years, the households' savings rate which had generally moved upwards at an increasing pace till 2003-04, generally levelled off thereafter at around 23 per cent. In contrast, the private corporate sector savings rate which had remained nearly stable at around 2 per cent upto the 1980s, picked up
subsequently and increased sharply after 2002-03 to over 9 per cent by 2007-08, on the back of improved corporate profitability; the private corporate sector savings rate has hovered around 8 per cent since then.

The private corporate sector has remained vibrant and has benefitted from increasing consumption and investment demand arising out of consistently high economic growth. With robust sales growth, improved productivity and healthy profit margin, corporates recorded good growth in profits which translated into higher saving.

The public sector savings rate declined steadily from around 5 per cent in the early 1980s and turned negative in the late 1990s and remained so for the next few years. This largely reflected the fiscal profligacy of the 1980s and the waning of the fiscal consolidation process in the late 1990s. The public savings rate turned positive once again in 2003-04 and peaked at around 5 per cent in 2007-08 largely reflecting
the enactment of fiscal responsibility legislation and improvement in the finances of public sector enterprises. A sharp decline in public sector savings occurred in 2008-09 largely on account of the Sixth Pay Commission arrear payouts and fiscal stimulus measures, which persisted in 2009-10 with the public sector savings rate declining further to 0.2 per cent.

### 4.7 Evolving Structure of Households’ Gross Financial Savings

The composition of (changes in) the gross financial assets of households has also changed substantially over the years.

<table>
<thead>
<tr>
<th>Period</th>
<th>Currency</th>
<th>Bank Deposits</th>
<th>Non-banking deposits</th>
<th>Life insurance fund</th>
<th>Provident and pension fund</th>
<th>Claims on Government</th>
<th>Shares &amp; debentures</th>
<th>Units of UTI</th>
<th>Trade Debt (Net)</th>
<th>Gross Financial Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970s</td>
<td>13.9</td>
<td>45.6</td>
<td>3.0</td>
<td>9.0</td>
<td>19.6</td>
<td>4.2</td>
<td>1.5</td>
<td>0.5</td>
<td>2.7</td>
<td>100.0</td>
</tr>
<tr>
<td>1980s</td>
<td>11.9</td>
<td>40.3</td>
<td>4.6</td>
<td>7.5</td>
<td>17.5</td>
<td>11.1</td>
<td>3.9</td>
<td>2.2</td>
<td>0.9</td>
<td>100.0</td>
</tr>
<tr>
<td>1990s</td>
<td>10.3</td>
<td>34.7</td>
<td>6.8</td>
<td>10.1</td>
<td>18.8</td>
<td>9.5</td>
<td>7.0</td>
<td>3.8</td>
<td>-1.0</td>
<td>100.0</td>
</tr>
<tr>
<td>2000s</td>
<td>9.6</td>
<td>44.7</td>
<td>1.3</td>
<td>17.4</td>
<td>12.4</td>
<td>11.1</td>
<td>4.1</td>
<td>-0.5</td>
<td>0.0</td>
<td>100.0</td>
</tr>
<tr>
<td>(i) 2000-05</td>
<td>8.9</td>
<td>37.8</td>
<td>2.0</td>
<td>14.7</td>
<td>15.1</td>
<td>19.5</td>
<td>2.8</td>
<td>-0.9</td>
<td>0.0</td>
<td>100.0</td>
</tr>
<tr>
<td>(ii) 2000-11</td>
<td>10.7</td>
<td>49.9</td>
<td>1.7</td>
<td>19.9</td>
<td>10.3</td>
<td>3.5</td>
<td>4.3</td>
<td>-0.2</td>
<td>0.4</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Table – 4.2: Composition of Savings in Gross Financial Assets

- The share of currency has declined to around 11 per cent during 2005-10 as compared with 14 per cent in the 1970s, reflective of the spread of banking facilities, the declining share of agriculture in GDP and moderation in inflation.
Bank deposits continue to account for the predominant share of gross financial assets, with their share increasing sharply in the second half of 2000s in contrast to the declining trend in the previous years; part of the recent increase in the share of bank deposits could be attributable to the increase in deposit rates and aggressive deposit mobilization by banks.

The share of life insurance funds continued to increase during 2000s, in line with higher insurance penetration and robust economic growth. As indicated in the Economic Survey 2010-11, Life insurance penetration in the year 2000 when the sector was opened up to the private sector was 1.77 and it has increased to 4.7 in 2009. The increase in levels of insurance penetration has to be assessed against the average growth of over 8 per cent in the GDP in the last five years.

The share of provident and pension funds has progressively declined over the years; this has been attributable to a number of factors viz.;

The EPF and MP Act, 1952 covers mandatorily those employees of organised sector whose salary is below ` 6500/- per month. This statutory limit is stagnant since 2002 while there has been a phenomenal growth in wage structure in industry over the years.

While the new enrolment of members has become difficult as mentioned above, the
exit of members by way of retirement, retrenchment and death are keeping normal pace.

The increasing job avenues in global age economy have stirred the job dynamics and owing to this there is a brisk movement of labour amongst the companies offering better rewards. This has also resulted in settlement of accounts rapidly and giving way to outflow of contributions, as many of exiting members do not come back under coverage profile due to low statutory ceiling of wages.

The Employees’ Provident Fund Organization (EPFO), of late, has taken a decision not to allow interest on those accounts in which no contributions have been received for last 36 months. This has been done with a view to dissuade the ex-members to consider this social security scheme as Investment Avenue. With obvious exit of such members, this may further erode the deposit base.

Reflecting the impact of the above factors, the contributions received in the Employees’ Provident Funds Scheme, 1952, Employees’ Pension Scheme, 1995 and Employees’ Deposit-Linked Insurance Scheme, 1976 framed under the EPF & MP Act, 1952, have been decelerating over the years.

The share of claims on Government, which largely reflect Small Savings, which had picked up over the years, particularly during the first half of 2000s, declined during the second half largely in response to the unchanged (administered) interest rates

- The share of shares and debentures in the gross financial assets of households has remained quite small (less than 10 per cent, on an average), even though it increased sharply during the (early) 1990s, spurred by the reforms in the capital market. Subsequently, the share of shares and debentures started declining largely reflecting stock market conditions impacted by irregularities and the downturn in industrial activity and was placed at less than 3 per cent in the first half of 2000s. The share of ‘shares & debentures’ picked up very sharply during 2005-06 to 2007-08 largely coinciding with the high growth phase and buoyant stock market trends, but then plummeted in 2008-09 in the face of knock-on effects of the global financial crisis; on the average, however, the share of shares and debentures improved during the second half of 2000s.

- Contrasting movements were observed in the shares of bank deposits and shares and debentures in the households’ gross financial assets till around the first half of 2000s, indicative of households’ perception of substitutability between the two instruments in the allocation of their financial savings. In the second half of 2000s, however, the average shares of both the instruments increased sharply in response to the very buoyant economic conditions, pick up in primary market activity (in the case of shares and debentures) and increase in deposit rates (in the case of bank deposits), and disinvestment of Small Savings holdings by households during 2007-09.
The share of Units of UTI, Mutual Funds, etc has generally been small and these turned negative during 2000s. Trade debt (net) has been negligible.

In sum, bank deposits continue to account for the predominant share of gross financial savings of the households and their share has increased sharply during the second half of 2000s. The share of Life Insurance Funds has also increased progressively over the years. Provident and Pension Funds, non-banking deposits, claims on Government and currency have lost momentum over the years. Shares and debentures constitute a relatively small portion of household financial savings, even though their share has picked up in the recent period.

4.8 Investment Behaviour Since 1991

The post liberalization era has marked with various stabilization measures and structural reforms particularly in industrial and trade policies with the broad objective of stronger export performance through liberalized exports performances through liberalized exports and turning domestic industrial sector global.

Deregulation and the delicensing initiatives have been undertaken in India with a view to increase production, improve quality and get access to markets for products and services abroad to competition with others MNCs. After liberalization, the growth of corporate sector increased tremendously. The banking sector and the financial system are undergoing metamorphic changes. The most intractable problem has been one of addressing the question of Non-performing assets of banks. Savings are the most important factor to any kind of economy. The prosperity
of a nation is reflected in the growth of income or Gross Domestic Product. The development process involves a large amount of resources pooling for the purpose of capital formation. Investment is an economics activity. It stimulates the value of wealth. Speculation is a dynamic activity. It is a short-term phenomenon. It involves higher level of risk. Gambling is involved in a game or chance. It is a combination of pleasure and pain. Usually every investor expects some return on his investment. Return is the reward to the investor. Risk is a possibility of meeting danger or suffering harm. Risk may be arrived by various factor. Safety is the important factor in making investment decisions. Liquidity attracts more attention by the investors. Inflation is a natural phenomenon in almost all the economics. A good financial system encourages the saving based investment. Investment policy is the important factor in making of investment decisions by the individual investors, firms, companies and other firms. Available surplus find will influence the investment decisions by the individual policy of the investors. Selection of investment option is another factor in investment process. Valuation is another important factor in investment process. Portfolio construction is one of the important factor in investment process. Portfolio evaluation is the final step in the investment process. Investment media have been categorized as Direct and Indirect investment alternatives. Investment activities lead the growth of industrial sector. Information is the impotent factor in gaining of knowledge. Knowledge occupies a dominant role in making of investment decisions. Security market is a combination of trading place of different financial instruments. Financial markets is a market, where the financial instruments are traded at a geographical place. Financial markets can be classified as Money Market and Capital Market. Money market is associated with short-term
nature of funds. Capital Market is known for long-term nature of funds. The security market further can be classified as Primary and Secondary Market. Primary market is known as new issue market. It is also called as initial public offer. These two markets are parking places of money. Primary market is useful to the newly established and business concerns. It is a dynamic market. All kinds of companies may approach the market. The issue must be get the approval of the SEBI. It provide a parking place toe the investors for their idle funds. Underwriting is one of the function of new issue market. Underwriting is a guarantee about the success of the issue. Public issue can be made by prospector. Prospectus is a document which contains all the particulars about the issuing company. Book building is another kind of rising of sources of finance. It is more popular in U.S.A. Nirma is the first company in India to adopt this method of issue. Private placement is one of the method of issue of shares. The shares are offered privately to the investors. Offer for sale is another kind of issue. The promoter places his shares to the financial intermediaries such as Merchant bankers, investment bankers, firms, stock brokers and issue houses. Rights issues are offered to the existing shareholders of issuing company. The success of public issue depends upon many factors such as “promoters reputation, objectives of the issue, details about the project, financial data etc. New issue market should be done as “online public issues”. The online method curbs the consumption of time and money. The public issue requires fulfillment of many legal formalities such as Companies Act, Securities Contract, and SEBI. Rights issue is another source of raising finance for the corporate sector. The shares allotment process is another important factor in raising of funds from the market. Securities Contract Act provides broad regulations of the present scheme of the stock
exchanges functioning in India. SEBI was established under the control of Central Government. The activities of the SEBI regulated by the Ministry of Finance. Public issue involves a number of financial intermediaries such as merchant bankers, lead managers, underwriters, bankers, brokers, registrars, debenture trustees and portfolio managers. Secondary market is a place where the issued shares are available. stock exchanges are known as “secondary market”. The stock exchanges in India should work within the framework of the various acts such as Companies Act, 1956 and Income Tax Act, 1961. Bombay stock exchange is the oldest stock exchange. There are 23 recognized stock exchanges functioning in India. The regular affairs of the stock exchange are managed by the governing body. Lasting means an official admission of a scrip to trade on the floor of stock exchange. The listed securities can be classified such as “Groups A, B. permitted cleared and non-cleared securities”. Speculation and gambling activities are controlled by the stock exchange through a separate department. The stock exchange gives top priority to the investor’s grievances. Investor service cell is established for the solving of problems. Stock market indices are barometers of an economic activity. The index number reveals about the quantitative analysis of the data. Market capitalization is one of the important factor information of index. Liquidity is another important element in construction of Sensex. Market depth is another important component of the Sensex. Flattening stock depth is the supply and demand for a scrip in the market. National stock exchange became operational in the capital market in 1994 in Mumbai. NSE has been sponsored by IDBI, ICICI, IFCI, GIC, SBI, UBI, PNB, etc. NSE provide national level trading facility for equity, debt and hybrid instruments. The NSE has a fully automated electronic screen based trading system. NSE has
two components wholesale debt market segment and capital market segment. The WDM deals with banks, financial institutions and other participants. Capital market segment consists of trading in equity and retail debt. This segment is working on the basis of financial intermediaries. The development of information technology lead to radical changes in trading methods. Institutional investors will get same privileges in the NSE. NIFTY stands for National Index for Fifty Shares. NSE also constructs CNX Junior and SSP CNX 500 index numbers.
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