CHAPTER 6
CONCLUSIONS

In this study, in order to identify the determinants of private corporate fixed asset expansion, the analysis is conducted at three levels, i.e. (i) the aggregate manufacturing sector, (ii) the industry level, and (iii) the firm level. The analysis of the disaggregated data is carried out in the present study in order to ascertain the magnitude of the problem of linear aggregation of economic relations.

The main findings of this study are:

(i) The Results for Aggregate Manufacturing: An examination of the results obtained at the aggregate manufacturing level indicate that for this sector, while relative prices appear to be the significant determinant of capital expenditures, the speed of adjustment is constrained by the availability of external finance.

However, an examination of the results obtained at the level of the industry and of the firm, suggests variations in their determinantal sets. These variations in the determinantal sets highlight the need to conduct an analysis of the determinants of investment expenditure, at as much as disaggregated level, as possible.
(ii) The Industry Level Results: A comparison of the results obtained at the industry level indicates that the determinants of investment behaviour differ between industries, and also from the behaviour of the aggregate manufacturing sector. The significant role that relative prices play in determining the investment capacity of the aggregate manufacturing sector is also indicated in the case of the engineering, chemical, paper and paper products, and sugar industries. For the three remaining industries, namely, cement, rubber and rubber products, and cotton textiles, it is the demand factor denoted by sales, which is the significant determinant of investment expenditure. As far as the speed of adjustment parameter is concerned, it is constrained by the supply of internal funds only in the case of the engineering industry. In the cases of the chemical, cement, sugar, and rubber and rubber products industries, it is the availability of external finance which is the limiting factor. Against these, in the case of the paper and paper products, and the cotton textile industries, the speed of adjustment parameter is not influenced by either of the finance variables.
(iii) The Firm Level Results. Just as there exists differences in the determinantal sets of the aggregate manufacturing sector, and the individual industries, there also exist differences in these sets between a particular industry, and the firms selected from it.

In the case of the cotton textile industry it is sales which determines investment capacity, whereas the four firms selected from this industry show different behaviour. In the case of two firms, namely, the Ahmedabad Manufacturing Company Ltd., and the Century Spinning Company Ltd., relative prices determine investment expenditure, whereas in the case of two other firms, namely, the Bombay Dyeing Company Ltd., and the Arvind Mills, it is sales which determine the investment capacity. Similarly, whereas the speed of adjustment parameter is influenced by the level of external finance in the case of the Ahmedabad Manufacturing Company Ltd., and Century Spinning Company Ltd., this parameter is not influenced by either internal finance or external finance in the case of the Bombay Dyeing Company Ltd., and the Arvind Mills.

For the engineering industry, relative prices determine investment capacity, whereas the supply of internal funds influences the speed of adjustment. The four firms selected
from this industry however indicate different behaviour. The speed of adjustment parameter is influenced by the availability of external finance only in the case of Larsen and Toubro Ltd., The supply of internal funds does not influence the speed of adjustment parameter in any of the the four firms. Regarding the determinants of investment expenditure also, the determinantal sets differ from firm to firm. Relative price is the significant determinant of investment capacity in the case of the Tata Engineering and Locomotives Company Ltd., whereas in the case of the Jay Engineering Works Ltd., the accelerator variable plays the significant role in investment behaviour. Residual funds, namely, retained earnings determine the investment expenditure of the Hindustan Motors Ltd.,

The divergence in the determinantal sets of the firms and their corresponding industries, is further illustrate in the case of the chemical, paper and paper products, and cement industries.

(iv) Summary: Thus, this study besides highlighting the importance of disaggregated analysis, questions the credibility of some of the generally maintained hypotheses. In particular, the
results suggest that external funds play a more important role when compared to internal funds. It also emphasizes the importance that needs to be attached to relative prices as determinants of investment expenditure, and thereby questions the reasonableness of the often maintained hypotheses that demand factors such as sales, output etc. are the most important determinants of investment expenditure in the Indian manufacturing sector.