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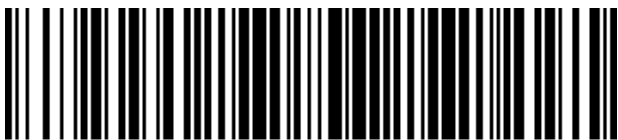
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Gross Private Domestic Investment

Supriyo Banerjee

INTRODUCTION

Gross Private Domestic investment is official item in the Product Accounts and the National Income which is maintained by the Bureau of Economics Analysis, where capital investment expenditures are measured. The Business sectors undertake the domestic economy for a given period of time where Gross Private Domestic Investment is expenditures on the capital goods which are to be used for the domestic activities. Out of the Four expenditures, the expenditures on these tend to be the least stable and the following is averaged between 12-18 percent of the Gross Domestic Product.

CONCEPT OF GROSS DOMESTIC PRODUCT

Now the question arises that what is Gross Domestic Product all about. Actually, GDP measures the monetary value of final goods and services-that is, those that are bought by the final user- produced in a country in a given period of time (say a quarter or a year). It counts all the output generated within the borders of a country. Gross Domestic Product is composed of goods and services produced for sale in the market and also includes some nonmarket production, such as defense or education services provided by the government.

Gross Domestic Product is important because it revolves all around the economy and also gives information about the growth of the economy and how well the economy is performing.¹

Another question arises that how is Gross Domestic Private Investment and Gross Domestic Product connected. How is that the following is having a nexus between them? Well the two are no a totally different concepts but actually Gross Domestic Private Investment is a component of Gross Domestic Product. Gross Domestic Product is having four components i.e.

- Consumption
- Gross Investment

¹ <http://purochioe.rojasdatabank.info/imfongdp.pdf>

- Government Purchases
- Net Exports

Gross Private Domestic Investment comes under Gross Investment. Gross private domestic investment is the purchase of equipment by firms, the purchase of all newly produced structures, and changes in business inventories. It consists of net private domestic investment and the consumption of fixed capital.

- a) Net private domestic investment is the part of gross investment that adds to the existing stock of structures and equipment.
- b) The consumption of fixed capital consists of depreciation and an allowance for accidental damage to the nation's structures and equipment.

If net private domestic investment is positive, then the nation's capital stock, and hence the nation's productive capacity increases and if net private domestic investment is negative, the nation's capital stock, and hence the nation's productive capacity decreases.²

The Business Sectors have undertaken the investment expenditures which is the official government measure of the Gross Private Domestic Investment. It seeks to quantify that portion of gross domestic product that is purchased by the business sector and which is used, in theory at least, for investment and the acquisition of capital goods. These expenditures purchase a wide range of capital goods, from factories to socket wrenches, from delivery trucks to nuclear power plants, from office buildings to copy machines.

² Economics and Contemporary Issues, 3rd ed. (Dryden Press, 1996), eds. Michael Edgmand, Ronald Moowaw, and Kent Olson.

A SPECIFIC MEASURE

Gross Private Domestic Investment is a relatively specific measure of Investment, as the three modifiers in the following term suggest. It is a gross (versus net) measure of private (versus public) domestic (versus foreign) investment.

- **GROSS** : All the capital goods are included in the Gross Private Domestic Investment in fact also those which are related to depreciate the capital. Focusing on the net private domestic investment, net private domestic investment is achieved when the capital depreciation (capital consumption adjustment) is subtracted from the Gross Private Domestic Investment.
- **Private** : Gross Private Domestic Investment is totally focused on the private sector and thus it is the investment expenditures made in the private sectors. The Government Consumption Expenditure, includes any of the capital goods purchased by the public or the government sector.
- **Domestic** : And lastly it is the Domestic Economy where the Gross Private Domestic Investment Focuses on the expenditures of the capital goods. The alternative is the investment expenditure on the capital goods in the foreign sector.

INVESTMENT

It is not only that the Gross Private Domestic Investment contains the word investment, in fact it is one of the three related terms containing the word investment. The other two terms are Investment and Investment Expenditure. It is a range where the term Investment deals with the conceptual concept whereas the word Gross Private Domestic Investment deals with the official measurement concept. The following three terms are elaborated below:

- **INVESTMENT** : Generally investment is the application of money or the other assets in the hope that in the future it would appreciate or generate more income. According to economics, investment is the utilization of resources in order to increase income or production output in the future. Business theories define investment as that activity in which a manufacturer buys a physical asset, for example stock or production equipment,

in expectation that this will help the business to prosper in the long run. In the legal sense, investment is the outlay of money that is mainly for income or profit.³

- INVESTMENT EXPENDITURE : The following term determines the actual expenditure on the gross domestic product as well as the goods and services by the Business Sectors. Investment activities that involve business purchases of capital goods is what is specifically dealt with the investment expenditures. All generic activities do not involve investment expenditures on gross domestic product.
- GROSS PRIVATE DOMESTIC INVESTMENT : Gross Private Domestic Product is the actual official measure of the investment expenditures.

INVESTMENT CATEGORIES

The National Income and Product Accounts officially separates the Gross Private Domestic Investment in two categories which are as follows:

- Fixed Investment
- Changes in private inventories

The following two categories are elaborated below:

FIXED INVESTMENT

Capital Goods is what is included in the Fixed Investment and it is generally about 95 to 97 percent of the Gross Private Domestic Investment. Machinery, factories, tools and buildings are what is basically included in this. Fixed investment is further divided into two sub categories i.e.

Nonresidential and residential.

- Nonresidential: The following nonresidential subcategory exemplifies what actually business investment in thought about or the concept of it by the general people. This includes any of the durable equipments i.e. oil wells, buildings and also the producer's durable equipment i.e. machinery, vehicles.
- Residential: Houses and apartments are both included in the residential category and which comes under 30 percent of the both fixed investment and gross private domestic investment. It is also divided into structures and producer's durable

³ Dr. S.R. Myneni, Law of Investments and Securities, 2nd Edition.

equipment. The production of an owner-occupied house is included as gross private domestic investment in the National Income and Product Accounts.

CHANGE IN PRIVATE INVENTORIES:

Inventories are often termed as “working capitals”. When the business sector invests in the stocks of finished products, raw materials, intermediate goods, which business keeps a hand to be used in the production, this is what the change in private inventories is all about. The final goods which have been produced but due to some reason remain unsold are also included in the Inventories. Hence inventories are required to smoothen the flow of the production sales.

Changes in private inventories are small because they only tend to be about 3 to 5 percent of the Gross Private domestic investment but still they are highly volatile component.⁴

Hence it is concluded that Gross Private Domestic Investment is one of the least stable category of the Gross Domestic Product and is also essential in order to compute the GDP in the measurement of the nations’ economic activity.

⁴http://www.amosweb.com/cgi-bin/awb_nav.pl?s=wpd&c=dsp&k=gross+private+domestic+investment