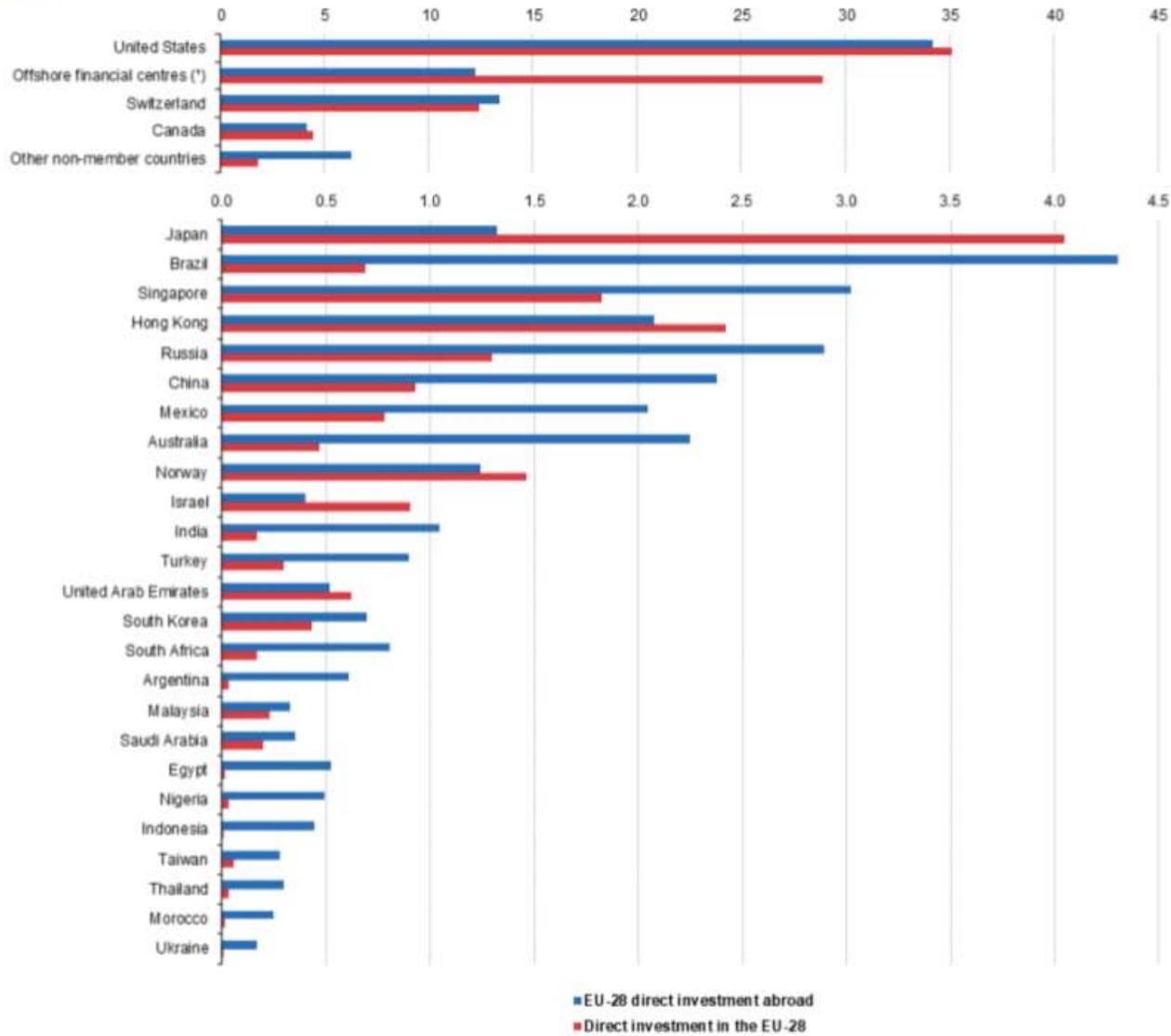




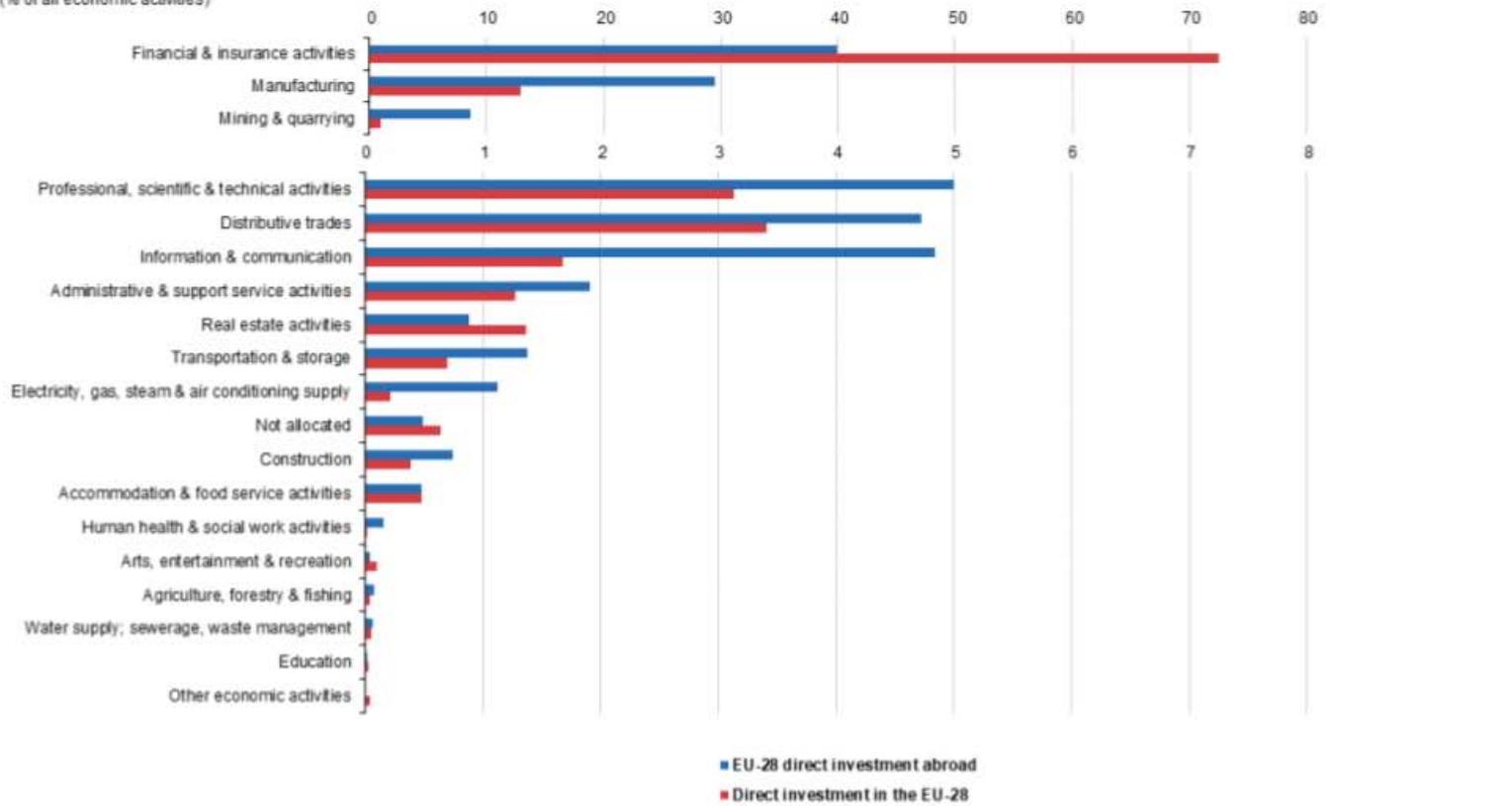
Extra-EU foreign direct investment positions, by partner, EU-28, 2017

(% of extra-EU total)



Extra-EU foreign direct investment positions, by economic activity, EU-28, 2016

(% of all economic activities)



Note: the figure is split into two parts with different scales. Ranked on the average share of direct investment abroad and direct investment in the reporting economy.
 Source: Eurostat (online data code: bop_fdi6_pos)

Foreign Direct Investment, percent of GDP, 2019

(percent, Source: The World Bank, TheGlobalEconomy.com)



Source: TheGlobalEconomy.com, The World Bank, TheGlobalEconomy.com

Investment has Different Meaning

Definition

- Investment involves employment of funds with the aim of achieving additional income or growth in values.
- Lending money to another [interest]
- Purchasing of gold[value appreciation]
- Purchase of insurance plan[promised future benefits]

The essential quality of an investment is that it involves waiting for a reward

Different Definitions for Investment

Investment may be defined as.....

“a commitment of funds made in the expectation of some positive rate of return” OR

it can be defined as.....

“a sacrifice of current money or other resources for future benefits”.

Expectation of return is an essential element of Investment

- Return is expected to be realized in future
- Future is uncertain
- Expected return $>$ realized return - variation
- Variation in income is risk

Numerous avenues of investment are available today, such as,

- Non marketable financial assets
- Bonds
- Mutual fund schemes
- Real assets
- Equity shares
- Life insurance policies
- Financial derivatives and
- Precious objects

Financial Meaning of Investment

- commitment of a person's funds to derive future income or appreciation in the value of their capital.

- Future income may be
 - ✓ Interest
 - ✓ Dividend
 - ✓ Premiums
 - ✓ Pension benefits

- Purchasing of shares/debentures

- Post office saving certificates

- Insurance policies

Economic Meaning of Investment

- net addition to the economy's capital stock which consists of goods and services that are used in the production of other goods and services.
- Formation of new and productive capital
 - New construction
 - Plant and machinery
 - Inventories
- All these investments generate physical assets

Characteristics of Investment

All investments are characterised by certain features.

- Returns
- Risk
- Safety
- Liquidity
- Tax Shelter

Return

Returns depends upon

- nature of the investment
- the maturity period
- host of other factors

Received return in the form of

Yield[dividend or interest] + capital
appreciation[difference between sales price and
purchase price]

Risk

- Risk is inherent in any investment.
- Risk and return of an investment are related.
- the higher the risk, the higher is the return.

- Risks may be
 - ✓ Loss of capital
 - ✓ Delay in repayment
 - ✓ Non-payment of interest
 - ✓ Variability in returns

Risk of an investment depends on the following
Factors

- Maturity period
- The lower credit worthiness
- Nature of the investment eg. Equity shares carry higher risk and debt instruments bond/debentures carry lower risk compare with equity.

Safety

- Every investor expects to get back his capital on maturity without loss and without delay
- Safety is another feature which an investor desires for his investments
- safety implies the certainty of return of capital without loss of money or time.

Liquidity

An investment which is easily saleable or marketable

- without loss of money
- without loss of time

is said to be possess liquidity.

Tax Shelter

Tax benefits are in the following three kinds

- ❖ **Initial tax benefit**
- ❖ **Continuing tax benefit**
- ❖ **Terminal tax benefit**

Initial tax benefit

The tax relief enjoyed at the time of making the Investment.

Continuing Tax benefit

A continuing tax benefit represents the tax shield associated with the periodic returns from the Investment.

Terminal Tax benefit

Relief from taxation when an investment is realized or liquidate

**Ex:
withdrawal from a public provident fund
account is not subject to tax**

Objectives of Investment

Each investor tries to maximise his welfare by choosing the optimum combination of risk and expected return in accordance with his preference and capacity.

Investors' objectives

- Maximisation of return
- Minimisation of risk
- Hedge against inflation

- **Savings kept as a cash are barren(unproductive)**
- **Don't earn anything**
- **Loses its value due to rise in prices, since inflation erodes the value of money**
- **If the investment can not earn as much as the rise in prices, the real rate of return would be negative**

Actual return realized from an investment may differ from the expected return – risk

- **Government securities- low risk[practically risk free]**
- **Debentures and preference shares-medium risk**
- **Equity shares- high risk**

Attitude towards risk

Some investors are risk averse

Some investors have affinity to risk

- **Risk bearing capacity of an investor is a function of his income**
- **A person with higher income is assumed to have a higher risk bearing capacity**

*Each investor tries to **maximise** his welfare by choosing the **optimum combination of risk and expected return** in accordance with his **preference and capacity***

■ Investment & Speculation

- Investment and speculation are closely related.
- Both involve purchase of assets-shares & securities.

- Risk
- Capital Gain
- Time period

Risk

- **It refers to the possibility of incurring a loss in a financial transaction**
- **High return is associated with higher risk**
- **Investor : commits his funds in low risk investment**
- **Speculator: commits his funds to higher risk investment to achieve high returns**

Capital Gain

- **Speculator achieve profits through price changes – capital gains**
- **He is interested in capital gain rather than income from an investment**
- **Purchase of securities proceeded by proper investigation and analysis to receive stable income & capital appreciation**

Capital gain ---continues/

- **Speculation associated with buying at lower price and selling at higher price to make large capital gain**
- **Speculator engages in frequent buying and selling transaction**

Time period

- **Investment is long-term in nature – waiting for returns at consistent basis**
- **Speculator is interested in short term trade gain
Through buying and selling of instruments**
- **Both investment and speculation aim at good returns but the difference is motives and methods**

Investment some times described as a well grounded and carefully planned speculation

Investment & Gambling

- **Gambling is quite the opposite of investment. Typical examples are horse races, card games, lotteries, etc.**
- **It consists in taking high risks not only for high returns, but also for thrill and excitement.**
- **It is unplanned and non scientific**
- **In gambling artificial and unnecessary risks are created fro increasing returns**

- **But an investment is carefully planned, evaluated**
- **Allocate funds to various investment**
- **Concentrate on safety**
- **Expecting moderate and continuous return for increasing the returns**

Model questions

- 4. What are the characteristics that an investor would like to have in an investment option? Explain each of these characteristics.**
- 6. “investment is well – grounded and carefully planned speculation” .Discuss**