Investment Models

Investment Models specifies the modes in which funds are invested in specific assets through which income is generated.

This article will go in length about the various investment models at length which will be useful in the Economic segment of the IAS Exam.

What is an Investment and why is it important?

Before we begin to describe the various types of investment models in existence, one must understand the basic definition of investment and the factors that govern it.

In simpler terms investment means exchange of money for a profit yielding asset. The same profit earned is used to invest in other assets as well. As far as the economic well being of the country is concerned, investment is important as it contributes to growth and development.

When the government invests in business, agriculture, manufacturing or supporting industries it can generate employment opportunities for its population. But a robust investment scenario is when the government and the private sector join hands to create investment opportunities.

Also keep in mind that the following factors come into play when making an investment and by proxy, choosing an investment model:

- Savings Rate.
- Tax Rate in the country. (Net income available after tax).
- Inflation.
- Rate of Interest in Banks.
- Possible Rate of Return on Capital.
- Availability of other factors of production – cheap land, labour etc and supporting infrastructure – transport, energy and communication.
- Market size and stability.

Types of Investment Models

The following are the major investment models

1. **Public Investment Model:** In a Public Investment Model, investment in specific goods, services is made by the government through the central or state government or with the help of the public sector by using the revenue earned through it.

2. **Private Investment Model:** As is the case with India, there are times when the earnings from the public sector is not enough to make up for certain shortfalls that may come about. Thus the government invites private players to invest in some of its ventures. This investment can be domestic or foreign in nature.

   A foreign direct investment (FDI) can improve the current infrastructure and generate employment in the process. This model is one of the most sought after when it comes to external investment.

3. **Public Private Partnership Model:** A public-private partnership (PPP, 3P, or P3) is a cooperative arrangement between two or more public and private sectors, typically of a long-term nature. The following sectors in India have been have projects based on the PPP model:
   - Health Sector
   - Power Sector
   - Railways
   - Urban Housing

There are additional investment models as well. They are as follows:

1. **Domestic Investment Model:** Can be Public or a Private-Public Partnership venture
2. **Foreign Investment Model:** It can be majority foreign or foreign-domestic mix
3. **Sector Specific Investment Models:** Where investments are made in Special Economic Zones or other allied sectors
4. **Cluster Investment Models:** Investment in Manufacturing Industries is an example.

Investment Models used in India

The following investment models are used in India:

1. **Harrod-Domar Model:** The model is more of a One Sector Model where the factor of economic growth is dependent on the policies that will increase savings and technological advances.

2. **Solow Swan Model:** It is an extension of the Harrod-Domar Model that laid special emphasis on productivity growth

3. **Feldman–Mahalanobis model :** This model focuses on improving domestic consumption goods sector where there is a hgh enough capacity in the capital sector goods. It later evolved into a Four Sector Model also known as Nehru-Mahalanobis model.

4. **Rao ManMohan Model :** Named after Narasimha Rao and Dr. Manmohan Singh, this model employs the policy of economic liberalization and bringing in FDI in 1999. Lewis model of economic development by unlimited labour supply.

Frequently Asked Questions Related to Investment Models?

Keeping in mind the investment models in India what are the factors used to study them?

The factors used to study investments and by extension, investment models are Households, Corporates and Government.

What are the other Investment Models used in India?

The following models are also used in India?

- Leverage Investment Model.
- Saving led growth model.
- Demand led growth model.
- Consumption led growth model.

What is the Fiscal Deficit of India currently?

India's fiscal deficit is expected to be around 7.5 per cent of the GDP for the current fiscal owing to moderation in revenue collection due to the COVID-19 pandemic.