

Economic Determinants of Fixed Investment : Panel Evidence from Indian States Using ASI Data

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The paper examines the economic determinants of fixed investment for the panel of Indian states using ASI data from 1998-99 to 2012-13 for factories operating under Factories Act, (1948). The study uses panel data techniques such as fixed effect and random effect models which are estimated using the GLS method. Hausman specification test is used to select the appropriate model. To examine the growth over a period of time for some of the major variables such as fixed capital, value of output, profits, physical working capital (inventory), gross fixed capital formation, and interest payments the study first estimated the compound annual growth rate (CAGR) using semi-log linear model for India. Second different panel equations have been specified to test and examine the economic determinants of fixed investment for factories operating under Factories Act, (1948) for the panel of Indian states using the above variables. The estimated results of semi-log growth model indicated that for India the major selected variables have registered an impressive CAGR during 1998-99 to 2012-13. The econometric analysis confirmed that the role of current accelerator and capital intensity were among the significant determinants of fixed investment during the study period for factories operating under Factories Act, (1948). The lagged value of fixed investment is also found significant determinant of fixed investment thereby indicating a movement towards the desired level of capital stock. However, interest payments as expected are found to be significantly suppressing the level of fixed investment. Further, it was confirmed that the investment in inventory is suppressing the fixed investment but the same was found to be insignificant. The profits included as one of the explanatory variable was found to be insignificant determinant of fixed investment.

Keywords : Fixed Investment, Inventory Investment, Value of Output, Profits, Capital Intensity, Interest Payments, Panel Data.