

Investment Criteria

Limitations:

Prof. A.K. Sen himself admits some of the limitations of this criterion:

1. It is arbitrary to fix up time horizon of ten years. There is no specific law on the basis of which period of recovery for a particular project can be fixed up.

2. It is not possible to derive the time series for all times to come. Therefore, the planning period has to be definitely fixed but this creates some serious problems. When the time limit is about to end, labour intensive technique might be selected in order to inflate the quality of output and thus capital formation is neglected.

3. The factors like technological change, wage rate, propensity to consume etc. on which the study of time series depends may all be changing and make the forecasting of future investment.

5. Balance of Payments Criterion:

The balance of payments effect of investment projects is important in case of underdeveloped countries. According to this criterion the allocation of investment should be done to minimize the adverse effect on balance of payments. Balance of payments difficulties of underdeveloped countries are due to the fact that they are

heavily dependent on foreign countries for their capital equipment.

They also require foreign exchange for import of materials for keeping this equipment into operation.

Buchanan had called this type of imports as the direct drain on foreign exchange. The rise in income due to investment and industrialisation leads to imports of consumer's goods. These are called circulation drain on foreign exchange. On the basis of the effect on the balance of payment.