

Investment Criteria

(7) SMP criterion helps in the maximization of output that can be attributed to the current investment effort but it does not take into consideration as to what happens to the final product during any period, which in turn, influences the investment rate in future.

(8) Harvey Leibenstein criticizes that it does not emphasize the need for generating the forces of economic development in an underdeveloped country. According to him, the object should be to maximize the amount of capital per worker and improve the quality of labour force.

Capital Turnover Criterion or Capital Intensity Criterion:

J.J. Polak and N.S. Buchanan have propounded this criterion. This criterion is based on capital-output ratio, i.e., K/Y of a project. In those countries where capital is scarce, funds should

be invested in those projects which have the lowest capital intensity.

This criterion is also used in its reverse form and then it is called capital—turnover criterion. According to this criterion, those projects should be selected which have a high rate of capital turnover or low capital output ratio.

Since capital is scarce in underdeveloped countries, those projects should be chosen which yield maximum output per unit of capital invested, i.e., where the capital—turnover is the highest. Quick yielding projects with low capital intensity are also desirable because they make it possible for the scarce capital resources to be released soon for investment in other projects.

Such projects also generate more employment which may be very desirable in the context of underdeveloped countries.