

Investment Criteria

For that, a time horizon is fixed up and returns for both the projects for different years are calculated. On the basis of this we can find out a period of recovery for any pair of techniques. In choosing the technique we compare this period of recovery with the period we are ready to take into account.

Suppose that there are two projects H and L and time horizon is ten years at the end of which total returns in each case are 100 million.

Period in year	Project 1 Capital Intensive (H) Return in lakhs	Project II Labour Intensive (L) Return in lakhs
1	2.5	6.5
2	4.0	7.0
3	6.0	8.5
4	9.5	9.0
5	10.5	10.0
6	11.5	11.0
7	12.5	12.5
8	13.0	12.0
9	14.0	12.5
10	15.5	13.0
	100	100

The returns of the H project are less in comparison to project L over the first six years while in the remaining four years the returns of H rise more than the project L. Since the total returns are the same for both the projects, the overall position is one of indifference.

The point to be noted is that whether the initial loss in output by adopting a capital intensive projects recovered within the period of ten years or not. The time taken by the capital intensive

technique to overcome its initial deficiency in output over the labour intensive technique is called the period of recovery.

This is explained with the help of diagram given below:

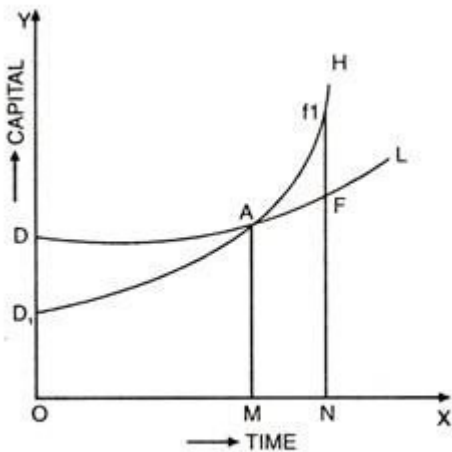


Fig. 1

In diagram I, H and L curves show the flow of real output during a given time horizon with two techniques. The period ON is the period of recovery which makes the area $DAD_1 = \text{area } FAF_1$.

Thus for any pair of techniques a period of recovery can be found. In the selection of techniques the period of recovery should be compared with the period we already taken into account. If it is found that period of recovery is longer i.e. if within the time horizon the loss in output by adopting technique H is not recovered by excess of output we should choose technique L and vice-versa.

If there is some conflict between present and future, the choice will depend on the time discounted use.