Role of Investment Avenues in Indian Economic Development in the present scenario

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Abstract - Investment is one of the most important determinants of economic growth and development. It is a central factor in determining the gross domestic product, which is the aggregate measure of a country's economic output. The Indian economy is likely to expand by 7.4 percent in 2017 as compared to 6.5 percent last year. “The positive outlook is mainly led by an increase in growth in India”, the UN Economic and Social Commission for Asia and the Pacific (ESCAP) said in its ‘Survey of Asia and the Pacific 2014: Year-end Update’. It is achieved only by the contributions given by the public and the industries. Investments are important due to increase in life expectancy of a person, planning for retirement income, high planning for additional income due to high rates of taxation and inflationary pressure in an economy, the expectation of continuous stable income in the form of regular dividends, interests and other receipts.

I. INTRODUCTION

Investment is a sacrifice of current money or any other resources for future benefits. The important feature of an investment is that, it involves ‘waiting’ for a reward in the future. It can be defined as the buying of securities or assets such as shares, debentures/bonds, mutual funds, real estate etc., at a price with the objective of earning a return on the funds deployed. Investment is the planning what secures most of the people from the uncertainty of future. In the sense of finance, an investment is a monetary asset bought with the idea that it will provide income in the future or appreciate and be sold at a higher price. Today’s earnings sacrificed for tomorrows living is called Investment. Investment plays a crucial role which differentiates the developed, developing and underdeveloped countries. Investments will definitely act as an indicator to project the GDP, Inflation, WPI, National income, etc., of a country, that is why developing countries like India is accepting Foreign Direct Investment into the country though many people, political parties inside the country are against it.

India, a developing nation, faces the problem of finding sufficient capital for their development tasks. Most of the countries find it difficult to get out the poverty of low income, low saving, low investment, low employment etc. With high capital output ratio, India needs very high rates of saving and investments to make a leap forward the efforts of attaining high levels of growth. Household savings plays a vital role in the contribution of investment. It consists mainly of income from employment and from the operation of unincorporated enterprises, plus receipts of interest, dividends and social benefits minus payments of current taxes, interest and social contributions.

Objectives of the study

- To know the different investment avenues currently available in India.
- To find out the factors to be considered while choosing the investment avenues.
- To know the contribution of investment towards economic development of the nation.
- To analyze the various factors chosen for investment avenues in the economic development.
- To give recommendations to improve the savings and investment habits among the investors.

II. SIGNIFICANCE OF THE STUDY

As Rao (1980)’ has rightly pointed out, “increase in saving, use of increased saving for increased capital formation, use of increased capital formation for increased saving for a further increase in capital formation constituted the strategy behind economic growth. This study will enhance the importance of financial investment, how to invest and also its relation to the growth of the Indian economy.
Importance of Investments

Investments are important due to increase in life expectancy of a person, planning for retirement income, high planning for additional income due to high rates of taxation and inflationary pressure in an economy, the expectation of continuous stable income in the form of regular dividends, interests and other receipts. The following discussion provides an explanation of these issues.

Longer Life Expectancy

Investment decisions have become significant because statistics show that life expectancy has increased with good medical care. People usually retire between the ages of 60 and 65. The income shrinks at the time of retirement because the annual inflow of earnings from employment stops. If savings are invested at the right age and time, wealth increases if the principal sum is invested adequately in different saving schemes.

The importance of investment decisions is enhanced by the fact that there is an increasing number of women working in the organizations. Men and women are responsible for planning their own investments during their working life so that after retirement they are able to have a stable income through balanced investments.

Taxation

Taxation introduces an element of compulsion in a person’s savings. Every country has different tax saving schemes for bringing down taxation levels of a person. Since investments provide regular and stable income and also give relief in taxation, they are considered to be very important and useful if investments are made by proper planning.

Interest Rates

Interest rates vary according to the choice of investment outlet. Investors prefer safe investments with a good return. A risk-less security will bring low rates of return. Government securities are risk free. However, market risk is high with high rates of return. Before allocations of any amount, the different types of securities must be analyzed to calculate their benefits and their disadvantages. The investor should make his portfolio with several kinds of investments. Stability of interest is as important as receiving a high rate of interest. This book is concerned with determining that the investor is getting an acceptable return commensurate with the risks that are taken.

Inflation

In a developing economy, there are rising prices and inflationary trends. A rise in prices has several problems coupled with a falling standard of living. Before funds are invested, they must be look at different investment outlets and compare the rate of return/interest to cover the risk of inflation. Security and safety of capital is important. Therefore, he/she should invest in those securities that have an assured and regular return. An investor has to consider, the taxation benefit decides the safety of capital and its continuous return.

Income

Investment decisions are increasing employment opportunities and an understanding of investment channels for saving in India. New and well paying job opportunities are in sectors like software technology; business processing offices, call centers, exports, media, tourism, hospitality, manufacturing sector, banks, insurance and financial services. The employment opportunities gave rise to increasing incomes. Higher income has increased a demand for investments and earnings above the regular income of people. Awareness of financial assets and real assets has led to the ability and willingness of working people to save and invest their funds for returns.

Investment Outlets

Large number of investment outlets has made investments become more useful and important. Thus, the investment are to achieve a good rate of return in the future, reducing risk to get a good return, liquidity in time of emergencies, safety of funds by selecting the right avenues of investments and a hedge against inflation.

III. Need for Investment

The need/objective of any investment is maximization of wealth of the investor. Along with maximization, the investment should also provide liquidity for the investors.
The following are the important needs for investment

i) Hedge against inflation

One of the important needs for investment or objectives of investment is protecting money against inflation. Inflation is the rate at which the level of prices for goods and services raise. Inflation may erode the value of money which the investor is holding. Hence, investors have to invest in such assets which give them adequate Rate of return to safeguard the value of money against inflation.

ii) Capital Gain

Capital Gain/Appreciation is one of the important needs for investment. Assets which are available for investor are of two types - Real Assets and Financial Assets. Real Assets are tangible assets such as land, buildings, gold etc., Financial assets are financial instruments such as bank deposits, shares, mutual funds etc., Normally, investors seek to invest their capital in such assets whose value increases over time. Capital gain/appreciation is mostly depends on the time period for which the capital is invested in that particular asset.

iii) Return on Investment (ROI)

Every investor sacrifices the current money for future benefits. The important benefit from any investment is the amount of return which the investment yields. Generally, the amount of return is dependent on the risk involved, time period for which the amount is invested.

iv) Liquidity

Liquidity is the ability to convert any asset into cash. Normally, investors prefer to invest in assets which are having high liquidity. Sometimes, assets with high liquidity may give less return such as savings account, post office account.

v) Safety

Safety is the one of the important needs for which people go for investment. Keeping the hard earned money in a safe place is essential for any investors. The investors who are conservative in nature always prefer low interest and low risk investments such as bank deposits. Because for such investors safety of principal is more important than the return on investment (ROI).

vi) Tax Planning

Generally, many individual investors are tax payers. Income Tax is a type of tax that is levied by the government on an individual’s earning/salary. The government uses the collected tax money to improve infrastructure, defense and various other purposes. The individual income tax slab for financial year 2018-19 is as follows:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Individual (Age less than 60 years)</th>
<th>Senior Citizen (Age 60 years &amp; Above)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to ₹ 2,50,000</td>
<td>Nil</td>
<td>Nil</td>
</tr>
<tr>
<td>Above ₹ 2,50,000 to ₹ 3,00,000</td>
<td>5%</td>
<td>Nil</td>
</tr>
<tr>
<td>Above ₹ 3,00,000 to ₹ 5,00,000</td>
<td>5%</td>
<td>5%</td>
</tr>
</tbody>
</table>

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Investment Media

Investment Media are channels available for investors for making investments. A sound investment portfolio can be constructed only if the investors have sufficient knowledge about the various investment alternatives. The following chart will give details about the various channels available for investment.

<table>
<thead>
<tr>
<th>Investment Media</th>
<th>Direct Investment Alternatives</th>
<th>Indirect Investment Alternatives</th>
<th>Non-Security Investments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Investment</td>
<td>Fixed Principal Investment</td>
<td>Provided Fund</td>
<td>Real Estate</td>
</tr>
<tr>
<td></td>
<td>Bank Deposits</td>
<td>Mutual Funds</td>
<td>Mortgage</td>
</tr>
<tr>
<td></td>
<td>Savings Certificate</td>
<td>Investment Companies</td>
<td>Life Insurance</td>
</tr>
<tr>
<td></td>
<td>Government Bonds</td>
<td></td>
<td>Art, Antiques and other valuables</td>
</tr>
<tr>
<td></td>
<td>Corporate Bonds and Debentures</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Variable Principal Investment</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity shares</td>
<td>Convertible Debentures or Preference Securities</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Direct Investment**

Direct investment refers to purchase of securities directly by the investor. In this case, investors control the purchase and sale of each security in their portfolio. There are two kinds of Direct Investment namely Fixed Principle Investment and Variable Principal Investment.

In **Fixed Principal Investment**, the capital that is invested is fixed, which means that the capital will not increase or decrease after the investment is made till the maturity date. So, in Fixed Principal Investments principal amount and their terminal value are known with certainty. For example, money that is invested in Bank Deposits or National Savings Certificates (NSC) cannot be increased or decreased after investment. Hence, the liquidity is relatively low.

In **Variable Principal Investment**, the capital that is invested can be varied by purchasing more securities or by selling the available securities. So, in variable principal investments the principal amount and their terminal value are not known with certainty. For Example, through secondary market, equity shares can be bought and sold whenever needed. Hence, the liquidity is high.

**Indirect Investment**

Indirect Investment refers to investing in securities through investment companies. In this case, investor does not have control over the purchase and sale of each security in their portfolio.

There are other indirect investment options available such as Public Provident Fund, Employee Provident Fund etc.

**Non-Security Investments**

Non Security Investments are investments in assets that are not freely marketable or transferable as a security. Non-security assets do not follow an institutionalized process for public trading on exchanges. This makes them highly illiquid investments.

Non security assets valuations are typically appraised by market experts. Non-securities may require authentication and registration to support their use and potential sale. These assets do not
require the backing of an underwriter or bank and involve much less documentation and paperwork.

**Objective of Investing**

People should be aware of objective of investing. You can easily find out objective by asking following question to yourself.

- For what purpose to make the investment?
- How much needed as a final amount?

This factor will help in deciding how much amount needed to invest in which financial product.

- Life stage
- Risk Return
- Time Horizon
- Income or Growth in Capital
- Tax Minimization

✓ Liquidity
✓ Loan
✓ Emergency Fund
✓ Asset Allocation

**IV. INVESTMENT AVENUES**

An investment is a purchase of assets which promises safety of principal and a reasonable return. So, knowledge about various investment avenues/alternatives enables the investor to choose the investment wisely.

Investment Avenues/Alternatives are broadly classified into Non Marketable Financial Assets, Marketable Financial Assets and Real Assets.

**Non Marketable Financial Assets**

The financial instruments which are not transferable are known as Non-marketable financial assets. The investors can invest in these financial assets but they cannot sale these financial instruments in the secondary market like shares and debentures.
Elements of Investments

There are two important elements in Investment - Risk and Return.

i) Risk

Risk means probability of getting adverse or low returns as compared to the expected returns. All the investment activities are subject to risks. There are basically two kinds of risks, namely - Systematic Risk and Unsystematic Risk.

Systematic Risks are non diversifiable risk, which cannot be avoided. Risk due to inflation, interest rate fluctuation, natural calamities, government policies, political situation etc., are risk factors involved in systematic risk. These risk factors are universal and influence the performance of all investment avenues.

Unsystematic Risks are created due to company specific or industry specific factors like performance of the company, Mergers or acquisitions etc. This type of risk can be either reduced or eliminated through diversification. Diversification is the process of reducing risk by investing in variety of products. Hence it is also called as Diversifiable Risk.

ii) Returns

Returns are the earnings realized from the investment activity. The earnings can be Interest/Dividend or increase in the value of the capital. Returns are mainly associated with the type of Investment Avenue. The amounts of returns are based on level of risk, market conditions, financial performance etc.

iii) Repayments

Repayments are one of the important element which an investor would put his money into any type of investment without fear.

An investor will have to consider the following important categories of investment opportunities:

- Protective investments.
- Tax oriented investment.
- Fixed income investment.
- Speculative investment.
- Emotional investment.
- Growth investment

Nowadays investment among the individuals has grown up, because of many reasons like, increase in inflation, change in the life style of the people, Future expectations and plans, necessity etc... But still people lack something in their investment decision like not predicting the exact requirement for the future. This study will focus on identifying the pitfalls in the investment decision.

Contribution of Investment and Savings towards Indian Economy

When an investor invests his money, he should consider four important aspects such as safety, flexibility, taxability and liquidity. Volatility variation in the different avenues made the people to change their pattern of investment, because earlier people’s choice of investment was on fixed return avenues but nowadays they shifted their pattern to the floating avenues.

Findings of the study

- Despite rapid economic growth, unemployment is still an issue in both rural and urban areas.
- In India, there are still high levels of illiteracy amongst the population and over 50% of women are illiterate. This is a major problem for people to invest their money and it limits sufficient level of economic development.
- Lack of basic amenities is another thing for poor economic development of India.
- Rigid government rules are followed by the country will lead to decreased amount of savings and investment.

Suggestions

- The government should take the steps to overcome the unemployment problems. It will help the people to earn income and save the money for investments.
- The steps to be taken to give awareness to the people regarding frauds in investment and selection of suitable avenues for the investment.
- The government should arrange for awareness programs to improve the investment habits for the investors.
- The government authorities to provide basic amenities to the investors for investing the money.

V. CONCLUSION

Investments are important due to increase in life expectancy of a person, planning for retirement income, high planning for additional income due to high rates of taxation and inflationary pressure in an economy, the expectation of continuous stable income in the form of regular dividends, interests and
other receipts. Everyone have the responsibility to work towards the attainment of a strong economy and for this achievement, they should invest their money within the country. People will make sure that their investment will be a gain both to the country and to them. Different investment avenues enhance the importance of savings and investment clearly.

REFERENCES


