

Investment

12-1. Investment : is the production per unit time of goods which are not consumed but are to be used for future production

12-2. Investment function: Investment is often modeled as a function of income and interest rates, given by the relation:

$$I = f(Y, r).$$

An increase in income encourages higher investment, whereas a higher interest rate may discourage investment as it becomes more costly to borrow money. Even if a firm chooses to use its own funds in an investment, the interest rate represents an opportunity cost of investing those funds rather than loaning them out for interest.

12-3. Foreign direct investment (FDI): is defined as a long-term investment by a foreign direct investor in an enterprise resident in an economy .

12-4. Types of FDI:

12-4.1. By Direction:

12-4-1.1. Inward: Inward foreign direct investment is when foreign capital is invested in local resources.

12-4-1.2. Outward: Outward foreign direct investment, sometimes called "direct investment abroad", is when local capital is invested in foreign resources.

12-4.2. By Target:

12-4.2.1. Greenfield investment: Direct investment in new facilities or the expansion of existing facilities. Greenfield investments are the main target of a host nation's support efforts because they create new production capacity and jobs, transfer technology, and can lead to linkages to the global marketplace.

12-4.2.2. Mergers and Acquisitions: Transfers of existing assets from local firms to foreign firms takes place; the main type of FDI. Cross-border mergers occur when the assets and operation of firms from different countries are combined to establish a new legal entity.

12-4.2.3. Horizontal FDI: It is investment in the same industry abroad as a firm operates in at home.

12-4.2.4. Vertical FDI:

12-4.2.4.1. Backward Vertical FDI: Where an industry abroad provides inputs for a firm s domestic production process.

12-4.2.4.2. Forward Vertical FDI: Where an industry abroad sells the outputs of a firm s domestic production.

12-4.3. By Motive:

12-4.3.1.Resource-Seeking: Investments which seek to get factors of production that are more efficient than those obtainable in the home economy of the firm.