

Dissertation Abstract

This research project is primarily designed for two basic purposes - viz. to discuss about the different controversies in this area and secondly to obtain an empirical analysis of the behaviour of depreciation and accumulated depreciation with growth, investment and replacement.

While taking up the controversial area we have paid, amongst others, attention to depreciation and price level changes. The common belief of depreciation deficiency in increasing price level is far from the truth. We have established this theoretically and we have validated the result with empirical evidence. While talking about depreciation deficiency, we have also found that depreciation covers not only replacement but half of it goes to growth investment even after adjustment for tax. Incidentally, we have established empirically, that paucity of fund for growth is due to retained earnings policy.

We have found empirically that growth in Indian economy does not really follow a Dornar type of assumption of investment. On the other hand, if growth is considered with reference to total capital stock, we find rather satisfactory result.

We have also found the behaviour of annual depreciation with respect to annual growth. We have studied the age structure of capital in Indian industry by the ratio accumulated depreciation and gross capital stock.

We have analysed the role of accelerated depreciation like development rebate, initial depreciation allowance theoretically and empirically. We have established that development rebate has got substantial impact in respect of inducement for growth.

Our analysis is based on Reserve Bank of India data for the periods 1960 - 65 and 1965 - 70 with sample size of 1333 and 1501 public limited companies with paid up capital above 5 lacs. In other words, data are fairly homogenous for carrying out any research. We have analysed on the basis of overall corporate sector and for thirty two industries. For the overall corporate sector, we have reported the yearly analysis but for industry we have reported the average figures for 1960 - 70 i.e., eleven years.

Our study has been divided in three parts - Part I has been devoted to the analysis of concepts, theory and controversies in the area of depreciation. In part II, we have discussed depreciation and growth under the assumption of certain pattern of growth in investment and capital stock. We have compared the actual results with the results under the model. In part III our attention is depreciation and development rebate with growth investment, replacement investment. Finally we have touched on the role of depreciation in generation of cash.