Capital Formation and Economic Growth

Part A

What is Capital?

- Capital is defined as "*All those man-made goods which are used in further production of wealth*"
- Thus, capital is a *man-made resource of production*
- *Machinery, tools and equipment of all kinds, buildings, railways and all means of transport and communication, raw materials, etc.*, are included in capital

Introduction

- Capital is one of the *most important factors of production* other than Labour

- Nature cannot *furnish goods and materials* to man unless he has the *tools and machinery for mining, farming, forestry, fishing, etc.*

Continued….

- The use of *capital makes workers* more *productive*
- Even *primitive man* made *use of elementary tools* like *bow and arrow for hunting and fishing* net for catching fishes

What is
Capital Formation?

- Capital formation refers to all the produced means of *further production*, such as roads, railways, bridges, canals, dams, factories, seeds, fertilisers, etc.
- *Saving and investment* are essential for capital formation

- Capital formation refers to *increasing the stock of real capital*
- It helps in *raising the level of production* of goods and services
- Therefore, the essence of the process of capital formation is the *diversion of a part of society's currently available* resources to the possible an *expansion* of consumable *output in future*

Process of Capital Formation

- The process of *capital formation* involves *three steps:*

A. *Increase in the volume of real savings;*

B. *Mobilisation of savings through financial and credit institutions; and*

C. *Investment of savings*

To be Continued….