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9 May 2018

Online at <https://mpra.ub.uni-muenchen.de/109961/>  
MPRA Paper No. 109961, posted 30 Sep 2021 06:56 UTC

# INVESTMENT ATTRACTION, COMPETITION AND GROWTH; **Theoretical Perspective of Fragile Economies.**

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*Revised publication of 2018*  
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## **ABSTRACT**

The examination of both theoretical perspective and empirical evidences of the Capital market, deduces that the major indicators of modern economic growth, highly depend on the extent of economic financialization, commonly defined as capital stock, industrialization and technological advancement. The focus of this paper is to theorize investment attraction mechanism to a decentralised developing economy serving in a global competitive arena, taking a posterior perspective of its political-economic climate.

**Keywords:** Investment Attraction, Investment Theory, Macroeconomics, Policy, Economic growth, Industrialization

**JEL Classification:** E1, E2, E3, E6

## 1.0 INTRODUCTION

Over the years, the various popularly accepted mainstream economic schools, had battled to clearly distinguish in the taxonomy records of the word “Capital” and “Investment” in its theoretical composition and analytics. As a result, both words are used interchangeably, as a required aggregate input toward output-of-production, without necessarily referring to monetary content of analysis. It is observed, in exceptional cases and instances, where attempts are made by few economists, to analyse the effects of the value of money on overall economic performance in both short and long-run, by taking cognizant of investment theory in a nominal perspective. One of such examples is the argument of Ludwig Von Mises (1953 [1912]), who was credited for using the marginal utility analysis to account for the value of money, and also the first to recognize the significance of credit creation in the context of a decentralized, time consuming production process. Which forms the axiom of Hayekian Triangle analysis of the relationship between Savings and Economic growth, and became the foundational tenet of Austrian Business Cycle theory. Which does postulate, to achieve capital accumulation in a decentralized economy measured in nominal content, for the purpose of investment to production, requires a sacrifice in consumption-savings perversity, the essence of the Heinleinian principle (Heinlein, R., 1966), which attracted Leijonhufvud (1968) to argue that, Saving-Investment perversity, in fact was central to Keynesian vision of the macro economy. Snowdon and Vane (2005) posit, Austrian Economics interest in macroeconomic theorization within the framework of monetary effects towards economic growth, led to the interpretation of the word “Loanable funds” and its theoretical effects, which thus state, *“They are, all the ways, that the investment community takes command of the unconsumed resources. Further taking command, has to include retaining command-in the case of the undistributed earnings of the business firm, in other to expand its own productivity capacity, and is to forego some of the market rate of*

*return on its retained earnings, a rate that it could obtained through the financial sector”*. This theoretical proposition was noted to have ignored consumer loans as income earned by individuals and spent on consumption. However, the theory further exposed that, in the market economy, there are different financial instruments like Bank Deposits, Passbook account, Bonds and equity shares, which Garrison (2001) established his argument for his debate in favour of Austrian economic school, on the perspective of capital-based macroeconomic framework, by stating that the economy production possibilities frontier, is determined by the loanable funds market, in which the rate of interest reflects the savings preference of the market participants, while the corresponding consumption preferences are accommodated by the output of the final stage of production in the Hayekian Triangle. (Hayek, 1933) predicate, resources are being allocated among the stages of production on the basis of the cost of investment funds, such that the rate of return in the real sector, as reflected in the slope of the triangle’s hypotenuse corresponds to the rate of return in the financial sector. Then emerged, Harrod-Domar growth model, within the development economic literature (Easterly, 1999, 2001a, and Chapter 11), which the model deduces, high rate of accumulation is the key to economic growth, and concluded that in the absence of substantial inflows of foreign capital, a country must generate the necessary resources through high rate of domestic savings. And expect that, it will come with a cost of inequality-in-income because without adequate incentives, investment rates would remain insufficient to generate sustained growth. (Kuznets, 1955) hypothesized that for a country to develop, it will initially have an increase in inequality before declining. Even though in the later years (Aghion et al, 1999) debunked the preposition of Savings and Inequality of Income in any growing economy in the face of empirical evidence. (Alesina & Rodrik, 1994; Persson & Tabellini, 1994) in complimentary to Kuznet's argument pose that, redistribution of income, by raising the tax burden on potential investors, reduces investment and consequently economic growth. Olson (2001), postulate, there are two key requirements for any society to grow

economically, first the establishment of secured and well-defined individual rights with respect to property, and impartial enforcement of contracts, as capitalism is first and foremost a legal system and second, the ‘absence of predation of any kind’. Then Murphy et al’s (1989b) reinvigorated version of the Big Push theory, which propound that, industrialization requires a large market in terms of domestic demand in other to make increasing-returns-technologies, profitable. Historically, theoreticians have focused on the development of investment theory and its effects towards economic growth, which the study focus of this paper is to put forward a model required for “Investment-Attraction” in a modern developing economy, serving within a global competitive market, for its economic growth.

## 2.0 LABOUR WAGE CONTRACT & SAVINGS

Austrian Business Cycle theory is established on the axiom of Individual Savings in micro economy, contributing to capital accumulation, which augments macroeconomic production frontier. This upholds the assumption that, Wage negotiators aim for constancy of their real wage for effective budget planning towards savings. This concurs to Fischer’s (1977) model, that nominal wage increases should be set equal to expected inflation;

$$\dot{P}_t^e = E(\dot{P}_t | \Omega_{t-1}) \dots \dots \dots \text{Eq. (1.0)}$$

$$\dot{W}_t = \dot{P}_t^e \dots \dots \dots \text{Eq. (1.1)}$$

Then;

$$\dot{W}_t = E(\dot{P}_t | \Omega_{t-1}) \dots \dots \dots \text{Eq. (1.2)}$$

- $\dot{W}_t$  -----Real Wage
- $\dot{P}_t^e$  -----Expected rate of Inflation
- $\dot{P}_t$  ----- Actual Inflation
- E----- Rational Expectation of Agents

This consolidates the empirical facts, such that in reality, there is, the necessity of a corporate firm, in a perfect market competition, to structure its real wage in correspondence to expected inflation and labour efforts. This is also in consonance to Solow (1979) postulation, that wage enters a firm's short-run production function in a labour-augmenting way, therefore, a cost minimizing firm, favours real wage rigidity, which was demonstrated by the equation as;

$$Q = AF [e (w) L], e (w) > 0 \dots \dots \dots \text{Eq. (1.3)}$$

- Q-----Firms Output
- A-----Productivity Shift Factor
- e----- Real Wage
- L----- Labour Input

From a general observation and inductive reasoning, I do hereby postulate that “Savings is expected to rise to the optimum of any decentralized economy, and act as Investment-Capacity to Economy, when such an economy approaches the theoretical status as expressed by Fischer’s model” as;

$$\dot{W}_t = \dot{P}_t^e \dots \dots \dots \text{Eq. (1.4)}$$

$$\frac{\dot{W}_t}{\dot{P}_t^e} = 1.0$$

This propositional framework further submits, for any decentralized economy, to trigger investment out of Savings, in ceteris paribus, should hold an efficient Investment policy framework index of its economic system, which is expressed in an equation below as;

$$\dot{S}_t^e = F \left[ \left( \frac{\dot{W}_t}{\dot{P}_t^e} \right) \epsilon_p \right] \dots \dots \dots \text{Eq. (2.0)}$$

$\dot{S}_t^e$ ----- Savings performance over-time

F-----Industrialization index factor of an economy

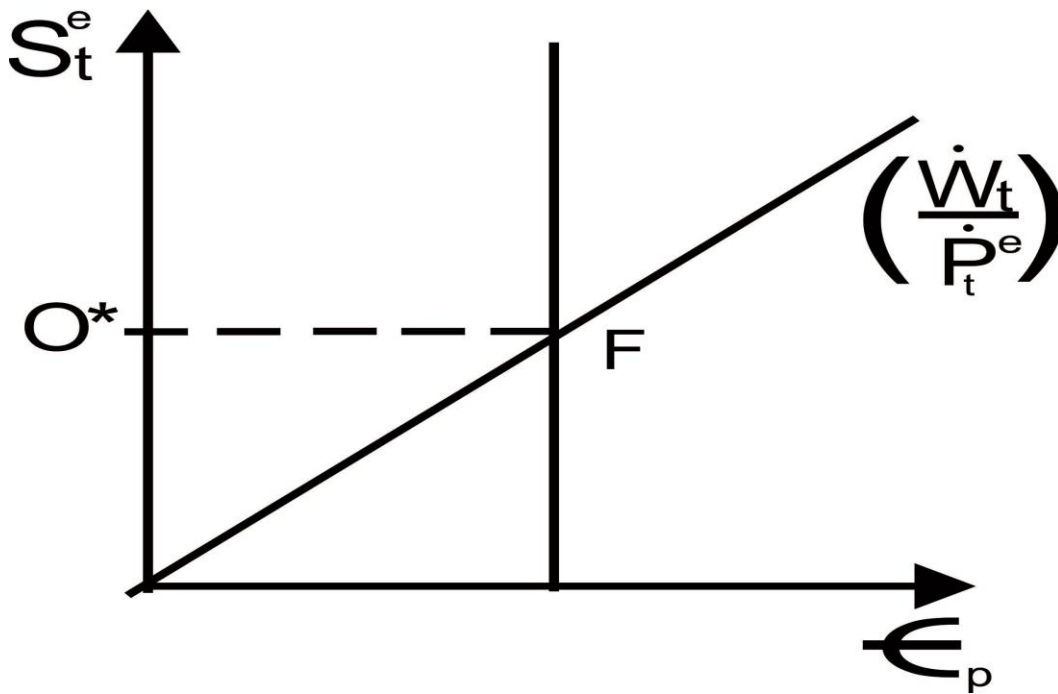
$\dot{W}_t$ ----- Real Wage

$\dot{P}_t^e$ -----Expected rate of Inflation

$\epsilon_p$ -----Efficient Investment Policy measurement index

It is assumed that, in such status of an economy, the issue of capital deepening capacity, in large extents will be addressed endogenously, towards industrialization optimal, in developing economies. Expressed in a panel form as Figure X1.

Fig. X1



Source: Senzu, T. E. (2018)

It is a graph of Savings-Incentive Economy versus efficiency policy index for economic industrialization and growth

O\* ----- Represent an optimal level of industrialized economy, as depicted by Panel Fig. X1-model. Expressing a required efficient in investment policy which is ‘Savings-Incentive driven’, to invoke workers, as the acting agents of the economy to become Savings bias, which perfectly responds to the consumption equation of Solow’s (2000, 2002) model of growth as;

$$Y = C + S \dots\dots\dots Eq. (2.3)$$

Y----- Aggregate Income of Worker

C----- Consumption components of Wage

S----- Savings Components of Wage

### 3.0 TRANSNATIONAL CORPORATE INVESTMENT IN PERFORMANCE EFFECTS

In every endogenous competitive market, corporate performance and profit is largely dependent on the following

- i. Labour efforts, which corresponds to effective wage
- ii. Technology and Innovations

The ultimate objective of every corporate firm is to perform, to attract larger market shares and satisfy aggregate demand. It is posterior argued, the driving indicators of such efficient performance are largely dependent on Labour efforts, Technology and Innovation. Therefore, the effort of the paper at this section, is to establish the relation between the labour effort, technology and innovation, which attract investment to a decentralized economy.

#### 3.1. Labour Effort

It is theoretically postulated by (Yallen, 1984; Katz, 1988), any firms that aims to maximize its profits ( $\pi$ ) depending on its labour efforts, could be presented in the equation below as

$$\pi = AF [ e(w)L - wL ] \dots\dots\dots Eq.(3.0)$$

$\pi$ -----Firms Profits

A-----Productivity Shift factor

C----- Effort per worker



L----- Labour inputs

w----- Real Wage

This predicate, is in consensus with Marshall (1920), Akerlof & Yallen (1986), on transnational corporate firms in the spirit of competition will pay higher wages to attract best workers.

Secondly, to reduce the cost of labour turnover. Which thus agrees to Salop (1979) mode of labour market equilibrium. It is prior argued further, if an economy approaches the level of Saving driven as theoretical defined by (Eq|2.0) above, such higher wages will have a great impact on the Savings capacity of the Economy. Taken a careful analysis into the nature of international competition among firms. (Fujimoto & Shiozawa, 2011[2012] Sect.b) did assert that international competition among firms of multi-national enterprise is a game with wage rates as handicaps. This exceptionally places emphasis on the relevance of wages efficiency to both domestic and transnational firms towards performance in a perfect competitive market that characterized the global arena of trade, which is assumed to have theoretical effects on Savings, in a favourable Investment-incentive-policy driven environment.

### **3.2 Technology and Innovations**

Technology and Innovations, observed to have the capacity to attract Investment to an Economy by firms, whether national or transnational, was theoretically modelled by P. Romer (1990). He argued that, accumulation of knowledge is the outcome of purposeful acts by entrepreneurs seeking to maximize private profits; that is, technological progress is endogenized. It therefore evidenced that an economy that places relevance in knowledge accumulation into labour performance and efficiency attracts transnational firms into such economy, with the ultimate objective to tap into its skilled labour market, available at a liberal wage, to address the effective delivering in a perfect competitive global market". This becomes a general situation when firms realize the cost efficiency in such a stylish labour out-sourcing than labour mobility programme".

The after-effects of such a postulation is, it causes quality transnational firms to relocate to such economy or Invest in Research & Development Centers as extension of their offices in such economy to augment their global competitive performance. In P. Romer’s (1986) model for endogenous growth economy, through production function, it was expressed in an equation as;

$$Y_j = F (K_j, L_j, A) \dots \dots \dots Eq. (3.1)$$

He argued, at the micro level, the output of any individual firm (j), depends on its own inputs of Capital (K\_j), Labour (L\_j) and the Economy wide state of knowledge (A). In his formulation, growth of knowledge is assumed to depend on the growth of capital, thus lacking a well-defined mathematical relationship that links the other factors that contribute to the attraction of investment and promotion of economic growth in a decentralized economy. I do hereby in a posterior experience of a fragile economy induce that “Aggregate growth of knowledge translated to quality labour performance is directly proportional to Growth of Capital in such economy”. With a clear established mathematical relation below, when all other factors are assumed to remain constant.

$$A_N \propto K_N \dots \dots \dots Eq. (3.2)$$

$$A_N = FK_{jN} \dots \dots \dots Eq. (3.3)$$

$$F = \left( \frac{A_N}{K_{jN}} \right) \dots \dots \dots Eq. (3.4)$$

- A<sub>N</sub>----- Economy wide state of Knowledge
- K<sub>jN</sub>----- Capital Investment of Firms in such Economy
- F----- Industrialization factor of the Economy

In reference to [Eq. 2.0]

$$S_t^e = F \left[ \left( \frac{W_t}{P_t^e} \right) \epsilon_p \right] \dots \dots \dots \text{Eq. (2.0)}$$

Deriving the current equation as,

$$s_{t+1}^e = \frac{A_N}{K_{iN}} \left[ \left( \frac{W_t}{P_t^e} \right) \epsilon_p \right] \dots \dots \dots \text{Eq. (3.5)}$$

Based on [Eq]3.5], we could therefore theoretically predicate that, the high-Savings attraction of any developing economy to compliment the deepening of its capital stock, is highly dependent on the following

- i. Economy wide state of knowledge
- ii. Efficiency of Investment Policy
- iii. Savings of the Workers
- iv. The ratio between real wage and expected inflation
- v. Capital Investment of firms in such Economy

This establishes the economic danger caused to an endogenous economy, when a firm engages in ‘Capital Flight’. This causes a distortion to the smooth functioning of the five leading indicators stated above, as the drivers to a decentralised economy, in becoming a conduit to investment attraction and accumulation of capital towards growth in a competitive global serving market. Therefore, “Capital Flight” as an economic event, should be seen as the leading “enemy” to the sustenance and success of the investment attraction model of an economy and growth.

#### 4.0 ECONOMIC GROWTH THEORY

Since the 18th Century, growth economic theorists, has formulated different models, using different indicative variables for an economy. But the most recent was Adelman (1958), who analyzed growth of an economy based on capital stock, natural resource, labour and stock of applied knowledge, then followed by

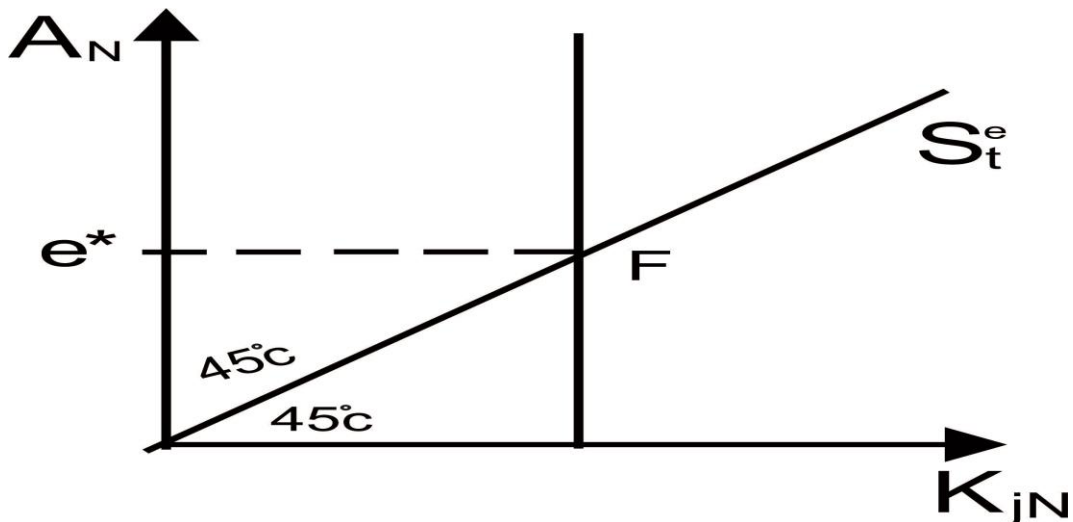
- Harrod-Domar model of Growth (Evsey Domar, 1946, 1947 ; Roy Harrod, 1939, 1948)
- Solow- Swan Model of Growth (Solow, 1956, 1957 ; Swan, 1956)
- Romer-Lucas Endogenous models of growth (Paul Romer 1986, Robert Lucas, 1988)

The variance and essence of my model from the above recognized models, is it focuses on investment attraction towards economic development and theoretically, represented by the equation;

$$e^* = F [(A_N, K_{jN}) + (S_{t+1}^e)] \dots \dots \dots Eq. (3.6)$$

And graphically represented below as Figure X2

Fig. X2



Source: Senzu, T.E. (2018)

*It is a graph of economic-wide-state-of-knowledge versus the capital investment of firms from both exogenous and endogenous economies to promote savings-incentive-capital as a foundation to sustainable economic growth in the developing economy.*

$e^*$ ----- Economic development

The paper hereby postulate that for any developing economy ( $e^*$ ) to have a sustainable development, it is expected to meet the following requirement without compromise;

- i. A high industrialization factor of the economy
- ii. Economy wide state of knowledge
- iii. Capital Investment of firms into such economy
- iv. Expected Savings Over-time

## **5.0 INSTITUTIONAL REQUIREMENT AND POLICY CREDIBILITY FOR INVESTMENT ATTRACTION ECONOMY**

Policy according to Merriam-Webster (2018), state, it is a set of guidelines or rules that determine a course of action. Wiki-Foundation (2018) further defines it as a deliberate system of principles to guide decisions and achieve rational outcomes. The focus of the paper under this topic is to establish theoretically, what it means as policy credibility and indicators that measure and evaluate it as well as institutions required to achieve it. The ultimate aim is to establish the character of a credible policy that promotes the Savings-Incentive environment of a national economy. Merriam-Webster (2018b), define Credibility as the quality or power of inspiring belief. While Wikipedia (2018) argue, as the objective and subjective components of believability of a source. I hereby define, Policy Credibility has a layout system of principles to guide decisions to achieve rational outcomes, with its designed framework highly objective and subjective in a quality to inspire belief.

Tinbergen (1952), Inspired that, policy makers must:

- (I) Specify the targets or goals of economic policy given a social welfare function, which the policy maker is attempting to maximize.
- (II) The policy maker should set out the policy instrument, which will be used to achieve the targets.
- (III) The policy maker, must make use of an economic model so that the instrument may be set at their optimal values.

Chow (1975) asserted that, normative approach to economic policy is concerned with how policy makers should act and, within the context of optimal control theory. Economists sought to identify, the optimal policy in order to reach the best outcome, given the decision of takers preference.

### [5.1] Monetary Policy Credibility

Central Banks are designated with the duty to design credible policy instruments within quantitative theory of demand for money in any national economy. Under the quantitative theory of money, Friedman (1956) postulated that, the demand for money yields a flow of service to the holder and depends on three main factors: (i) The wealth constraint, which determines the maximum amount of money that can be held. (ii) The return or the yield on money in relation to the return on other financial and real assets in which wealth can be held. (iii) The asset-holder's tastes and preference. And it was presented by the equation as;

$$\frac{M_d}{P} = f \left( Y^p : r, \dot{P}^e; u \right) \dots \dots \dots Eq. (4.0)$$

Where;

$Y^p$ -----Represent permanent income, used as a proxy for wealth, the budget constraint

$r$ -----Represent the return on financial assets

$\dot{p}^e$ -----Represent the expected rate of inflation

$u$ -----Represent individuals' taste and preference

In *Ceteris Paribus*, the theory predicts that, the demand for money will be greater under the following conditions. (i) When the level of wealth in holding money raises (ii) When the yield on assets declines (iii) When expected rate of inflation declines or approaches zero. It is also observed as a natural principle that, utility maximizing individuals will reallocate wealth between different assets, whenever marginal rates of return are not equal.

The study therefore propound that, any decentralized economy that seeks to grow its capital stock beyond quantitative easing to an investment attraction through the following factors below as economic market indicators below;

- i. Industrial growth and investment
- ii. Savings from Wages
- iii. Technology and Innovations

Should have a Central Bank positioned with the responsibility to design a policy instrument, to address the following conditions

- 1. Policy that increases yield in money Savings in a national economy. And such could be achieved in a policy environment that promotes a high return in Treasury rate with respect to time, represented by the equations as;

$$S_t^e = \dot{T}_t^{r+1} \dots \dots \dots \text{Eq. (4.1)}$$

This type of policy is possible, only under a small size government committed to budget constraint discipline and proactive as a market regulator, rather than a market player in a developing economy.

2. Stabilization policy of inflation, with expected inflation seen as equal to real inflation rate for a long-run; with real inflation rate, strive to operate within 0-3.0 consistently in a developing economy as appropriate to attract quality foreign industrial investment. And this could be represented by the equation as;

$$\dot{P}_t^e = \dot{P}_t \dots \dots \dots \text{Eq. (4.2)}$$

3. Finally an economy that operates under a low interest rate, governed by interest stabilization policy, generates the effect of a low cost in capital renting, with a stabilized general output prize of goods represented by the equation as;

$$C_{Ki} = [P_{Ki} (r_i + \delta_i)] \dots \dots \dots \text{Eq. (4.3)}$$

- $C_{Ki}$ -----Cost of Capital nominal
- $P_{Ki}$ -----Cost of purchase of capital nominal
- $r_i$ -----Real interest rate nominal
- $\delta_i$ -----Rate of depreciation nominal

$$[\text{Profit}] = [\text{Revenue}] - [\text{Cost of Capital}]$$

$$\dagger [\text{Revenue}] = [\text{Profit}] + [\text{Cost of Capital}]$$

$$R_K = [P_{TK} + C_K] \dots \dots \dots \text{Eq. (4.4)}$$

$R_K$ -----Revenue of Capital



$P_{TK}$ -----Profit return on Capital

$C_K$ ----- Cost of Purchased Capital

$$R_K = P_{TK} + [P_K (r_k + \delta_k)] \dots \dots \dots \text{Eq. (4.5)}$$

At the condition, when real Inflation rate is equal to zero, in *ceteris paribus*; the equation will be represented below as;

$$R_K = [P_{TK} + (P_K r_K)] \dots \dots \dots \text{Eq. (4.6)}$$

At the condition, when Interest rate is stabilized, in *ceteris paribus*; price of goods will be stabilized, hence; Revenue will be equal to price of goods

$$R_K = G_P \dots \dots \dots \text{Eq. (4.7)}$$

$G_P$ -----Price of Goods from purchased capital

$$\dagger G_P = [(P_K r_k) + P_{TK}] \dots \dots \dots \text{Eq. (4.8)}$$

Therefore, monetary policy Instrument for investment attraction economy could be represented by the equation;

$$\dot{M}_{Pj} = [(G_P)(\dot{T}_t^{r+1})(\dot{P}_t)] \dots \dots \dots \text{Eq. (4.9)}$$

This theoretically deduces that, in any developing economy that seeks to attract investment, should have a monetary policy instrument that has the target to achieve the following

1. Policy that stabilized price of goods
2. Policy that promote high rate of return in Treasury bill
3. Inflation policy rate aspiring to zero

The impact is to increase profitability of investment, thereby attracting foreign direct investment through industrialization, innovation and technological advancement.

**[5.2] Fiscal Policy Credibility**

The effect of how corporate income tax has on investment behaviour depends on how the Law define's 'profit' for taxation. Corporate income tax is a tax on corporate profits. Therefore, if the Law defines corporate tax as the rental price of the Capital minus the cost of Capital, in this case, even though firms would be sharing a fraction of their profits with the government, it would be rational for them to invest. In a situation whereby, the rental price of Capital falls below the cost of Capital, it will result in disinvestment. A corporate tax measured in this way, would not alter investment incentive and affect investment decisions in such economy. The second instance is how the law treats depreciation of capital, which is observed to be contrary to a theoretical economic approach. Economists treat current value of depreciation as a cost in the profit, whereas, the law measures the corporate tax on firms by deducting depreciation using historical cost. This methodical approach will cost disinvestment especially during the period of inflation because replacement cost becomes greater than historical cost. This kind of corporate taxation turns to understate the cost of depreciation and overstate profit. Finally, in any economy, which has an unstable inflation rate and high interest rate, it needs to set a correct policy definition for corporate taxation, if it aspires to attract investment into its economy, using the equation as stated below;

$$C_T = \left(\frac{x}{100}\right) (P_{TK}) \dots \dots \dots \text{Eq. (5.0)}$$

$$\dagger P_{TK} = R_K - [P_K(r_k + \delta_k)] \dots \dots \dots \text{Eq. (5.1)}$$

$$C_T = \left(\frac{x}{100}\right) [R_K - \{P_K(r_k + \delta_k)\}] \dots \dots \dots \text{Eq. (5.2)}$$

While

$C_T$ -----Corporate Taxation measurement

$\kappa$ ----- Corporate Tax rate

Therefore [Eq|5.2], is the appropriate theoretical measurement of corporate tax on corporate profit in a developing economy aspiring to attract investment.

Hayashi (1982), further argued that, Firms base their investment decisions on the Tobin's q, established by the formula

$$\text{Tobin's } q = \frac{\text{Market Value of Installed Capital}}{\text{Replacement Cost of Capital}}$$

The numerator of "q" is the value of the economy's capital determined by the stock market.

While the denominator is the price of that capital, if it were purchased today.

If Tobin's q is greater than 1.0 then the market value is greater than the value of the company's recorded assets. This suggests that, the market value reflects some unmeasured or unrecorded assets of the company. High Tobin's 'q' values encourage companies to invest more in capital, because they are 'worth' more than the price they paid for. On the other hand, if Tobin's 'q' is less than '1' the market value is less than the recorded value of the assets of the company. This suggests that the market may be undervaluing the company. John Mohaljevic points out that, no straight forward balancing exists in the case of low q-ration. When 'q' is less than parity, the market seems to saying that, the deployed real assets will not earn a sufficient rate-of-return and that, therefore, the owners of such assets must accept a discount to the replacement value, if they desire to sell their assets in the market. Summers (1981), also argued, the advantage of Tobin's 'q' as a measure of the incentive to investment is that, it reflects the expected future of profitability of capital as well as the current profitability. The higher the expected profits, raises

the value of stock, which then raises Tobin's-q, and therefore, encourages investment. Thus, Tobin's-q theory of investment emphasizes that, investment decisions depend not only on current economic policies but also on policies expected to prevail in the future.

The possible theoretical conclusion is, any decentralized economy striving towards an environment that achieves Tobin's  $q \geq 1.0$  of its investment market, requires to meet two major conditions

- i. Its stock market should be 'sensitive', meaning highly liquid, with policies that respond favourably to all kinds of intellectual properties.
- ii. Its corporate tax policy, should treat all kinds of capital depreciation as cost

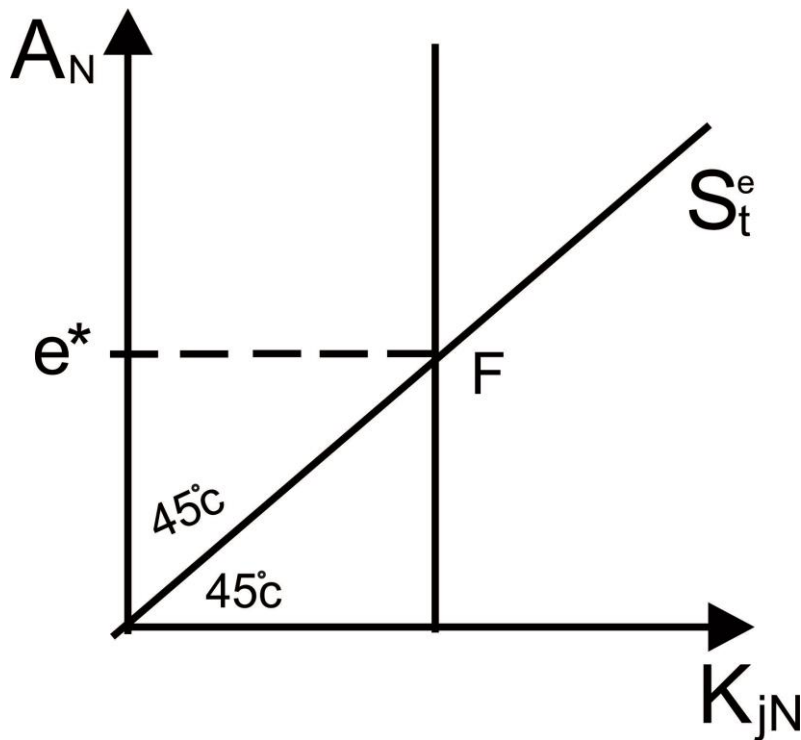
## **6.0 INSTITUTIONAL REQUIREMENT FOR INVESTMENT ATTRACTION ECONOMY**

In other words, for the fundamental theoretical base of investment attraction to sustain its expected performance under a real market, depends on quality institution and operational independence, which concur with the report of (Brown, 1997), in his proposition of a new monetary policy framework for the UK economy on the 6th May, 1997; requested the operational independence for the Bank of England, to enable it to become effective to assigned task. Chancellor Gordon Brown, in an official statement, provided the following rationale for the government's strategy. Which I quote "We will only build a fully credible framework for monetary policy in the long-term needs of the economy, not short-term political considerations guiding monetary decision-making. We must remove the suspicion that short-term party political considerations are influencing the setting of interest rates." Therefore, the Central Banks should be capable of conducting monetary policy in a manner free from opportunistic and partisan influences. In addition, fiscal policy should be subjected to harder budget constraint, with the Central Bank not obliged to monetize deficits. The developing economies should prioritize the

development of its fiscal system as a matter of an agency because it is central to economic industrialization that causes growth.

### 7.0 REQUIRED POLITICAL ENVIROMENT FOR INVESTMENT ATTRACTION THEORY TO HOLD

The study hereby concludes that the ideal political environment that could easily attract investment and engineer rapid economic growth in developing economy as represented by the panel below label as Fig. X2; and expressed in an angle of  $45^\circ$  both to the X-axis and Y-Axis, is a suggestion of a mixed economy of social and capital system in nature to explore successful applicability of investment attraction, and at most desired system, be a capitalist economy. The higher ( $S_t^e$ ) line continues to rise far away from the X-axis and increases the angle of elevation from  $50^\circ$  to  $60^\circ$  and so on, indicate the economy changing hands to a capitalist economy.



Source: Senzu, T. E. (2018)

## 8.0 CONCLUSION

The study finally concludes, for a developing economy, aspiring to establish an economic system to promote investment heaven goal, should have an efficient investment policy structure represented by  $(\epsilon_p)$ , and mathematically justified below as;

$$F_{pj} = (q^h, C_T) \dots \dots \dots \text{Eq. (8.0)}$$

$$\dot{M}_{pj} = [(G_p)(\dot{T}_t^{r+1})(\dot{P}_t)] \dots \dots \dots \text{Eq. (4.9)}$$

Where

$F_{pj}$ -----Fiscal Policy Target

$\dot{M}_{pj}$ -----Monetary Policy Target

Therefore, the proposed Efficient Policy Instrument  $(\epsilon_p)$  for Investment Attraction Theory, is represented by the equation as:

$$\epsilon_p = [F_{pj} + \dot{M}_{pj}] \dots \dots \dots \text{Eq. (8.1)}$$

In reference to [Eq2.0], it state that any economy with Saving-Incentive is represented by the formula;

$$S_{t+1}^e = F\left[\left(\frac{\dot{W}_t}{\dot{P}_t^e}\right) \epsilon_p\right]$$

Therefore to measure  $(\epsilon_p)$  of a national economy is represented by the equation as

$$\epsilon_p = [\{(q^h)(C_T)\} + \{(G_p)(\dot{T}_t^{r+1})(\dot{P}_t)\}] \dots \dots \dots \text{Eq. (8.2)}$$

Resulting in the derivation for an investment driven economy as below as;

$$\dagger S_{t+1}^e = \frac{A_N}{K_{iN}} \left[ \left( \frac{\dot{W}_t}{\dot{P}_t^e} \right) \{ (q^h \cdot C_T) + (G_p \cdot \dot{T}_t^{r+1} \cdot \dot{P}_t) \} \right]$$

The derivation above implies that any investment driven economy to promote an effective investment policy framework, will highly depend on the quality management of the following factors below of a decentralized economy;

1. High value of Tobin's-q of the Economy
2. Corporate Tax measurement
3. Stabilize price of public goods from purchase capital
4. High treasury rate of return with respect to time
5. Real inflationary aspiring to zero rate

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