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## KEY : DOES IT TAKE MONEY TO MAKE QUICK MONEY THROUGH CORRUPTION ?

### • DEVELOPMENT TENSION AND UNPRODUCTIVE ASSETS

Rational economic growth or economic self-reliance may be brought about by diverting about 75 per cent unproductive assets. (R+P) to maintain and develop productive assets. (W) leading to sound financial management. On the other hand, by diverting 75 per cent of (W) to (R+P) : referring to profiteers. MNCs etc. the country lands in an unprecedented economic crisis resulting in financial mismanagement. Thus, when (W)>(R+P) investment cycle will be fast moving and the country's credit-worthiness will increase : when (R+P) > (W) the investment cycle will be sluggish and concerned company's credit-worthiness will remain questionable and causes development tension.

When R (rent) + P (profits) - - non productive assets - - exceed W (wage fund) - - productive asset, irrational economic growth is the result with the fast moving investment cycle turning sluggish, the firm faces liquidity and associated problems.

### • GOVERNMENT VIS-A-VIS PRIVATE SECTOR MANAGEMENT

In the entrepreneurial stage, many small firms start up and provide service. As the new industry grows, mergers and consolidation take place, followed inexorably by government regulation of fees and franchises in response to complaints about costs and in an effort to control perceived "chaotic" competition. Thereafter, costs gradually rise because of inflation and the need for increased maintenance as the facilities age, but, in the name of "protecting the public", politicians refuse to authorize rate increases or service adjustments. As a result, revenues are insufficient and firms start losing money (leading to serious funding gap). This in turn leads to reduced expenditures on maintenance and repair, no further investment in new equipment, increasingly erratic and interrupted service, calls for government action, government takeover, public subsidies for what is now a government-run system and declining efficiency under public operation. A point is reached beyond which subsidies cannot be sustained, and therefore either service must be cut back or user charges or taxes must be raised. Ultimately, the wheel comes full circle as privatization is called upon to cure the problem.

### • DOMESTIC FIRMS RESPONSE TO FOREIGN CORPORATION - ENTRANTS

Positive spillovers cause a domestic plant's average cost curve to fall from  $AC_0$  to  $AC_1$ . However, additional competition may force the plant to reduce output and move back along its new  $AC_1$  curve. The net effect is to increase overall costs of production. While the market "stealing" effect leads to a decrease in the local firm's production and to an increase in its average costs, positive spillovers, if any, would lead to a decrease in the local firm's marginal costs and to a decrease in its average costs. The net effect is a reduction in output for the local firm.

### • COST OF RISK ESCALATION AND UNDERINVESTMENT

Managers face the dilemma in applying real options logic when there is uncertainty at the exercise stage. The risk of higher commitment to a failing project increases with the degree of integration. Managers can minimize this risk by keeping a project isolated. However, isolation raises the risk that a good project will be killed, and that the firm will fail to exercise the option on an asset. They may lead to systematic tendencies to underinvest or overinvest at the exercise stage. That the optimal degree of integration is at the intersection of the two lines, where the two probabilities are equal. However, this would presume that the cost of escalation (exercising option on a failing project) and underinvestment (killing an option on a promising project) are equal.

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