

THE ECONOMIC EFFICIENCY OF INVESTMENT

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Abstract:

Economic efficiency is the main quality factor of economic growth because through it one can achieve an absolute performance enhancement involving the same amount of effort. In a market driven economy efficiency has to be estimated at a microeconomic level as well as with respect to the national economy. Investments play a key role in the economy as an intermediate between the production of goods and services and the consumer itself being a factor of influence regarding the demand as well as the offer. Investment provides the financial support for promoting technical-scientific progress in various fields of activity.

Key words: economic efficiency, investments, progress.

JEL classification: Q10

Efficiency is the capacity of an economic activity to produce a positive outcome.

In economics, the concept of efficiency emerged especially this century, although certain indirect references have been made by W. Petty and Adam Smith, the latter having approached the issue of maximizing results without referring to minimizing expenses. Besides them, another economist having brought a significant contribution to defining the concept of economic efficiency was the Italian Vilfredo Pareto.

Economic efficiency resides in using the given means of production so that unlimited needs can be covered by increasingly limited resources.

At the same time, economic efficiency refers to a company's degree of achievement of economic goals set for a certain period of time. Maximum efficiency is indicated by 100% achievement of the goal, whereas the other cases indicate partial degrees of efficiency.

The degree of economic efficiency depends on the amount and quality of resources and achieved results. It establishes the relation between the amount and quality of efforts as factors generating outcomes and results. The actions of any given entrepreneur are competitive if they reflect high efficiency, which means achieving the best possible results in relation to the resources consumed in the process.

The most efficient use of material, human and capital resources in the investment field requires both micro and macroeconomic optimization.

As for the concept of investment, it is linguistically synonymous with that of allocation, placement or endowment and consists in the efforts made in order to achieve certain future benefits.

For the concept of investment, emphasis lays on the application field, on its content [4].

The economic efficiency of investing implies using certain given investment funds in order to achieve maximum results. A common expression of economic efficiency resides in the relation between the lucrative results achieved by an economic activity and the expenses, namely the efforts implied by performing that activity.

In economic activities there are at all times several efficient or inefficient ways of achieving a goal, but there's always only one optimal way which provides a

maximum of efficiency. Therefore, there is a mutually conditioning relation between efficient and optimal [1].

In measuring economic efficiency, the amount of expected profit is compared to the necessary investment funds.

An analysis of economic efficiency requires taking into consideration the way resources are used as well as the amount being used. Thus, both the extent of their use and saving are being monitored. The efficiency of lucrative activities, of using resources is variable according to the various interests on several economic organizational levels, the location where the economic activity is performed, etc. [2].

Strumlin defines economic efficiency as "a maximum outcome, with minimum expenses and in the shortest amount of time" [5].

Efficiency also has a complex nature and that requires a thorough analysis of all the efforts involved and all the results achieved, both in terms of volume, as well as social structure and significance [1].

The efficient exploitation of the technical-material equipment is the ratio between the effects showed by the indexes synthesizing the whole economic-financial activity (total income, turnover, total value of the activity, added value, gross profit) and the total value of fixed and current assets - regarded as the effort required for achieving these financial-economic results.

A depreciation of the technical-material equipment as a consequence of investment decline has determined the substitution of fixed assets by human labor, with a negative impact on labor productivity and the capacity to provide the internal product supply.

In the current international context, the strategic orientation of investments is highly important, which means that managers must possess a good knowledge of the current and future socio-economic environment, thus becoming able to identify the causes determining changes.

Investments are an important part of economy, right between the field of production of goods and services and the field of consumption, bearing a simultaneous influence both on supply and demand.

The economic efficiency of investments should be estimated in the context of the overall interests of national economy, namely considering the multiple effects generated within a certain field of production.

Achieving investment goals is conditioned by internal and external funding sources, government and private investments. The personal resources of small producers are insignificant, while outside sources (bank loans, shared loans, external credits, etc.) are hard to contract because of the low reimbursement capacity and poor creditworthiness of companies.

Investment plays a double part in an economic system, namely: on the one hand, companies that initiate investment activities widen their offer of goods and services by increasing their production capacity, thus obtaining an extra income, while on the other hand any investment project is bound to generate further needs or demands in related fields [4].

The efficiency of lucrative activities and use of resources is different on the various organizational levels of economy, according to the interests involved or the place where the activity is performed. Thus, overall economic efficiency is expressed by the growth of net domestic product per effort unit, while when it comes to a company, efficiency is expressed by labor productivity, production costs per unit, profitability.

Undertaking investment projects or programs mainly generates the increase of the fixed assets stock.

In agriculture, the main aspects considered for updating the technical-material assets reside in: extending the use of machinery, increasing the consumption of highly

productive biological matter, electrification, use of chemicals, extending irrigations on areas affected by drought, etc. [6].

Socially, investment plays a compensational part in employment, in improving the quality of life. The implementation of investment projects or programs generates changes on the labor force market, creating an extra need of labor force for the sectors that prepare and implement these investment actions, but more importantly for the beneficiaries of these projects who exploit the new means of production. The immediate result is a diminishing pressure of the factors generating unemployment.

The analysis of economic efficiency aims at finding the optimal way of achieving maximum results in relation to the efforts made, but the concept of optimal is not totally definite, it depends on several factors.

At the same time, investment provides the financial support for promoting technical-scientific progress in various fields of activity [4].

Technical-scientific progress and innovation have a considerable impact on production. Thus, new production methods are required in order to reduce costs and improve product quality by better combining the internal and the external means of production.

The current equipment of agriculture in our country appears to be quite precarious. The structural deficiency generated by the insufficient machinery is doubled by its depreciation and obsolescence [3].

In the context of a competitive market economy, obtaining high yields per hectare and per animal, increasing labor productivity and profitability are highly dependent on the size, structure and optimal exploitation of the technical-material assets.

Economic efficiency greatly depends on the manager's ability to use new technology, to make well informed decisions of purchasing equipment and to adjust appropriately to the natural-economic conditions of each country.

The level of investments in industry and agriculture

Specification	2000	2005	2008
Net investment in agriculture (mil. lei current prices)	988	1.502,3	3.345,5
The share of agricultural investment in total economy (%)	7,90	3,14	3,36
Net investment in industry (mil. lei current prices)	4.939,4	17.702,5	31.632,5
The share of industrial investment in total economy (%)	39,51	36,99	31,78

Source: I.N.S. Statistical Yearbook of Romania 2001, 2006, 2010

Net investment in agriculture increased in 2008 compared to 2005 by approximately 1,843.2 million lei, while in 2005 there was a 514.3 million lei growth compared to 2000.

The share of agricultural investment in total economy slightly increased in 2008 compared to 2005, and a significant decrease in 2005 compared to 2000.

During the transition period, there has been a decrease of investment in agriculture from internal sources, which hasn't been substituted by an increase of direct foreign investment in this field of activity.

As for industrial investment, it also increased in 2008 compared to 2005 and in 2005 compared to 2000. However, the share of industrial investment in total economy decreased both in 2005 compared to 2000, and in 2008 compared to 2005.

According to the National Institute of Statistics, investment in economy grew by 9.2% in 2011 compared to 2010, reaching 64.529 billion lei current prices (15.22 billion euros).

In the last trimester of 2011 growth was noticed for all structural elements, such as: equipment - 35.4%, new construction work - 14.5% and other expenses - 12.6%.

Investment in new construction work in 2011 came to a total of 31.913 billion lei, namely 49.5% of the total, compared to 51.2% in 2010. Investment in equipment and means of transport came up to 26.305 billion lei, namely 40.8% of the total, compared to 38.4% in 2010.

The main sectors with a significant amount of investment were industry and trade/services (wholesale and retail, car repair services) [7].

The analysis of the technical-material assets should be regarded both in their dynamic evolution, and considering their comprising elements. Changes occurring over time alter the structure of the technical-material assets, most times with considerable impact on production and the financial-economic results of the company. If the share of fixed assets has an increasing evolution, it means that there was an orientation towards technical updating, towards labor force equipment in general. If the share of current assets is growing, it means that financial consumption increased, which could result in more significant expenses.

To sum up, we could state that the technical-economic restructuring of production units requires their modernization and re-equipment with technology in order to render the performed activity more efficient and profitable. This is bound to generate an improvement of the technical-economic parameters of fixed assets, an increase of their performance speed, a reduction of specific consumption, increased reliability, etc.

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