AN ANALYSIS OF RELATION BETWEEN SAVING, INVESTMENT AND CAPITAL FORMATION IN NEPAL

A THESIS

Submitted By:

Pramod Verma Shanker Dev Campus T.U. Regd. No.: 7-2-54-561-2003

Exam Roll No: 2009/065 Campus Roll No: 1704/063

Submitted To:

Office of the Dean Faculty of Management Tribhuvan University

In partial fulfillment of the requirements of the Master's Degree of Business Studies (MBS)

Putali Sadak, Kathmandu June, 2010

RECOMMENDATION

This is to certify that the thesis

Submitted by **Pramod Verma**

Entitled An Analysis of Relation between Saving, Investment and Capital Formation in Nepal

has been approved by this Department in the prescribed format of the Faculty of Management. This thesis is forwarded for examination.

Shashi Kant Mainali (Thesis Supervisor)	Prof. Bisheshwor Man Shrestha (Head of Research Department)	Prof. Dr. Kamal Deep Dhakal (Campus Chief)
Kiran Raj Panta (Thesis Supervisor)		

VIVA- VOCE SHEET

We have conducted the viva-voce of thesis

Presented by: **Pramod Verma**

Entitled

An Analysis of Relation between Saving, Investment and Capital Formation in Nepal

and found the thesis to be the original work of the student and written according to the prescribed format.

We recommend the thesis to be accepted as partial fulfillment of the requirements for the Degree of

Master of Business Studies (MBS)

Viva-Voce Committee

Head, Research Department	
Member (Thesis Supervisor)	
Member (Thesis Supervisor)	
Member (External Expert)	

DECLARATION

I hereby declare that the work reported in this thesis entitled **An Analysis of Relation** between Saving, Investment and Capital Formation in Nepal submitted to Research Department of Shanker Dev Campus, Faculty of Management, Tribhuvan University is my original work as partial fulfillment of the requirement for the Degree of Master of Business Studies (MBS) under the supervision of Shashi Kant Mainali and Kiran Raj Panta of Shanker Dev Campus, Kathmandu Nepal.

June, 2010

.....

Pramod Verma

Shanker Dev Campus

T.U. Regd. No.: 7-2-54-561-2003

Exam Roll No: 2009/065

Campus Roll No: 1704/063

ACKNOWLEDGEMENT

This thesis entitled **An Analysis of Relation between Saving, Investment and Capital Formation in Nepal** for partial fulfillment of the Degree of Master of Business Studies has been prepared with full commitment from my side and I have tried my best to prepare this study with the help of some respectful teachers and friends.

I would like to express my heartiest gratitude and sincere thanks to my thesis honorable Supervisor Shashi Kant Mainali and Kiran Raj Panta, who encouraged me from initiation to completion of this task with his scholar guidance and profound comments and suggestion.

I would like to express hearty thanks towards all the members of my family who provided regular inspiration and continuous contribution for my success. I would also like to thank staffs from the Statistical Department of Nepal Rastra Bank who helped me with various data and statistics required for my thesis.

At last I would like to thank those known and unknown sources of help, support and encouragement.

Pramod Verma

TABLE OF CONTENTS

VIVA DECI ACK TABI LIST LIST	OMMENDATION A VOCE SHEET LARATION NOWLEDGEMENT LE OF CONTENTS OF TABLES OF GRAPHS REVIATIONS CHAPTER-I	e No.	Pag
INTE	RODUCTION		
		1-10	
1.1	General Background		
	1		
1.2	Statement of the Problem		
	4		
1.3	Objectives of the Study		
	7		
1.4	Limitations of the Study		
	8		
1.5	Organization of Study		
	9		
	CHAPTER-II		
REV	IEW OF LITERATURE		11-
54			
2.1	The Theoretical Framework		
	11		
	2.1.1 Conceptual Consideration		
	11		
	2.1.2 Theories Regarding Saving Investment Functions		
	12		

	2.1.3 Conceptual Consideration on Capital Market	
	14	
	2.1.4 Theories Regarding Saving Investment Functions	
	15	
2.2	Review of Journal and Articles	
	19	
2.3	Review of Thesis	
	27	
	CHAPTER -III	
RESE	EARCH METHODOLOGY 3.	5-
42		
3.1	Research Design	
	35	
3.2	Nature and Sources of Data	
	35	
3.3	Population and Sample of the Study	
	36	
3.4	Method of Analysis	
	36	

CHAPTER -IV

PRES	SENTATION AND ANALYSIS OF DATA	43-
64		
4.1	Role of Saving, Investment and Capital Formation on Economic Developmen	t
4.2	Analysis of Determinants of Saving, Investment and Capital, Formation 51	
4.3	Major Findings 61	
	CHAPTER-V	
SUM	MARY CONCLUSION AND RECOMMENDATIONS	65-69
5.1	Summary	
	65	
5.2	Conclusion	
	67	
5.3	Recommendations	
	68	
BIBL	IOGRAPHY	
APPE	ENDIES	

LIST OF TABLES

Table No.		Page
4.1	Regression of Gross Domestic Product (GDP _C) on Saving (S _C), Investment (I _C) and Capital Formation (CF _C) at Current Prices for Various Models 44	
4.2	Regression of Gross Domestic Product (GDP _C) on Saving (S _C), Investment (I _C) and Capital Formation (CFc) at Current Price for Various Models	
4.3	Regression of Gross Domestic Product (GDPc) on Saving (Sc), Investment (IC) and Capital Formation (CFC) at Current Prices for Various Time-Periods	46
4.4	Regression of Gross Domestic Product (GDP _C) on Saving (S _C), and its one to five year lag values; GDP _C on Investment (I _C), and its one to five year lag values; and GDP _C on Capital Formation (CF _C), and its one to five year lag values at Current Prices for periods of $1982/83$ to $2007/08$	47
4.5	Regression of Gross Domestic Product (GDP _R) on Saving (S _R), Investment (I _R) and Capital Formation (CF _R) in Real Terms for Various Time-Periods	48
4.6	Regression of Gross Domestic Product (GDP _R) on Saving (S _R), and its one to five year lag values; GDP _R on Investment (I _R), and its one to five year lag values; and GDP _R on Capital Formation (CF _R), and its one to five year lag values at Real Terms for periods of $1982/83$ to $2007/08$	49
		50

LIST OF GRAPHS

Graph No.		Pag	ge
No.			
4.1	Time Series Line of Gross Domestic Product (GDP), Investment (I), Saving (S) and Capital Formation (CF) at Current Prices 44		
4.2	Time Series Line of Gross Domestic Product (GDP), Investment (I),		
	Saving (S) and Capital Formation (CF) at Real Terms		
		49	
4.3	Time Series of Line of Determinants Saving at Current Prices		
		51	
4.4	Time Series Line of Determinants of Saving at Real Terms		
	53		
4.5	Time Series Line of Determinants of Investment at Current Price		
		55	
4.6	Time Series Line of Determinants of Investment at Real Terms		
		56	
4.7	Time Series Line of Determinants of Capital Formation at Curren	nt Prices	
		58	
4.8	Time Series Line of Determinants of Capital Formation at Real Terms	3	
		59	

ABBREVIATIONS

CBS	=	Central Bureau of Statistics
CDE	=	Central Department of economics
CDM	=	Central Department of Management
CO.	=	Company
ed	=	Edition
ES	=	Enterprises
et al.	=	and others
FOM	=	Faculty of Management

FY = Fiscal Year

GDP = Gross Domestic Product
GNP = Gross National Product
IMF = International Monetary Fund
LDCs = Least Development countries

Ltd = Limited

NEPSE Ltd. = Nepal Stock Exchange Limited

NG = Nepal Government NRB = Nepal Rastra Bank RBI = Reserve Bank of India

RIS = Research and Information System

Rs. = Rupees

S.N. = Serial Number

SEBON = Securities Board Nepal

SPSS = Software Programme for Social Sciences

UN = United Nations

Vol. = Volume