

# Contents

Introduction	7
CHAPTER 1. SWEDISH INDUSTRY DURING THE POST-WAR PERIOD	9
1.1 Economic Development and Economic Policy	10
1. Cyclical Pattern	10
2. Expansionary Tendencies	11
3. Economic Policy	13
1.2 Manufacturing Finance	16
CHAPTER 2. A CAPITAL BUDGETING THEORY OF INVESTMENT PLANNING	20
2.1 The Investment Reserve	21
2.2 Outline of the Theory	24
2.3 Formal Structure of our Theory	31
1. Investment Planning Function	32
2. Investment Function	34
3. Realization Function	35
4. Financial Model	35
5. Financial Disequilibrium Variable	36
6. Capital Budget	38
7. Profit Generation and Plow-back	40
8. The Realization Function Reconsidered	43
9. Assumptions as to Expectations	44
10. Exclusion Hypothesis	47
2.4 Causal Structure of the Model	48
CHAPTER 3. APPLICATION OF THE CAPITAL BUDGETING THEORY	51
3.1 Econometric Method	51
3.2 The Financial Model	53
1. Transactions Liquidity and Inventories Functions	54
2. "Grey" Credit Market	54
3. Savings Function	55
4. Capital Budget	55
5. Ex-post Simulations of the Capital Budget	57
3.3 The Realization Function	58
1. Investment Behaviour—Machinery	58
2. Investment Behaviour—Construction	65
3. Regression Experiments	66
4. Residual Analysis	68
5. Ex-post Simulations—Machinery	70
CHAPTER 4. SOME FEATURES OF THE CAPITAL BUDGETING THEORY OF INVESTMENT PLANNING	73
4.1 Structure of the Financial Sector	73
4.2 Implications for Profitability and Growth—Long-run Equilibrium Conditions	76

CHAPTER 5. INTER FIRM BORROWING—THE “GREY” CREDIT MARKET	80
5.1 Trade Credit Flows—Empirical Results	81
5.2 Buffer-Stock Function of the “Grey” Credit Market	82
5.3 Derivation of a Credit Function	85
1. The Individual Credit Function	85
2. Aggregation of Credit Functions	87
3. Some Properties of the Credit Function	88
5.4 A Simple Method of Non-additive Residual Analysis	90
CHAPTER 6. MANUFACTURING DEMANDS UPON THE MONEY MARKETS 1965–70 —A LONG-TERM FORECAST	92
6.1 Method and Background Material	92
6.2 Results of Forecast	95
1. Demand for external funds 1966–70	95
2. Internal Finance—the Savings Investment Ratio	97
3. Credit Market Shares	99
CHAPTER 7. CONCLUSIONS WITH RESPECT TO MONETARY POLICY	102
BIBLIOGRAPHY	106

*List of diagrams*

1:1. Some indexes on manufacturing industry 1950–65	12
1:2. Manufacturing finance 1950–70	15
2:1. Causal structure of the model	48–49
3:1. Ex-post simulations of the capital budget 1952–65	59
3:2. Goodness of fit by realization function, investment in machinery and equipment, manufacturing total 1950–67	63
6:1. Internal financing ratios, manufacturing 1950–70	97

*List of tables*

1:1. Sources and uses of funds, manufacturing industries 1950–65	17
1:2. Uses of funds in the organized credit market and investment; percentage distribution by sector 1955–64	18
3:1. Savings function, estimated coefficients by branch	56
3:2. Numerical specification of the capital budget by sub-industry	57
3:3. Basic realization function, investment in machinery and equipment, results from estimation by sub-industry	61
5:1. Function for extended trade credits, estimated coefficients by branch	80
5:2. Function for trade debts, estimated coefficients by branch	81
6:1. Net borrowing by manufacturing industry in the organized credit market 1951–70	96
6:2. Flows of funds in the organized credit market 1955/59, 1960/64 and 1970, percentage credit market shares distributed by sectors	100