Editors' Preface to Macmillan Studies in Economics

The rapid growth of academic literature in the field of economics has posed serious problems for both students and teachers of the subject. The latter find it difficult to keep pace with more than a few areas of the subject so that an inevitable trend towards specialism emerges. The student quickly loses perspective as the maze of theories and models grows, particularly at a time when so much reappraisal of the established paradigms is taking place.

The aim of the 'Macmillan Studies in Economics' is to offer students, and perhaps some teachers as well, short, reasonably critical overviews of developments in selected areas of economics, particularly those in which current controversies are to be found. As far as possible the titles have been selected to form an integrated whole, although inevitably entire areas have been neglected as being unsuited to the style, format and length of the titles in the series.

In some cases the volumes are rather more like essays than surveys. In most cases, however, the aim is to survey the salient literature in a critical fashion. The level of understanding required to read the volumes varies with the complexity of the subject, but they have been generally written to suit the second- and third-year undergraduate seeking to place his reading of the detailed literature in an over-all context. They are *not* textbooks. Instead they seek to give the kind of perspective that might well be lost by reading longer textbooks on their own, or by reading articles in journals.

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Capital Investment Appraisal

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C. J. H.

D. W. P.

Authors' Note

There is currently a considerable controversy about whether either NPV or IRR will necessarily maximise shareholders' utility as opposed to maximising their income. It is impossible within the space of this book to cover the areas of the literature on which we have concentrated and also to cover adequately the utility maximising controversy. For an extensive study of the problems associated with the latter see J. Hirschleifer, *Investment, Interest and Capital* (Prentice-Hall, New Jersey, 1970).

Introduction

The use of proper investment criteria is essential to industry. In 1968 the private and public sectors of the U.K. economy spent some £7,000 million on fixed capital (at constant prices). In addition to increasing profitability, proper investment criteria have important implications for the national economy: national economic growth is dependent, in considerable part, upon the rate of growth and profitability of investment. In so far as national growth is an objective of any government, it is important that investment funds be correctly allocated.

Whether investment appraisal be for use in public or private sectors of the economy, the basic methods used are the same. The public sector, however, has some additional special problems of its own when deciding on investment, due mainly to the fact that governments may wish social costs and benefits to be taken into account. A separate study analyses these special problems.¹

Although the development of investment appraisal techniques has a long history – from Böhm-Bawerk and Wicksell through Irving Fisher, Keynes and others – most of the literature has developed since the last war. This development has been aided by the growth of quantitative techniques for dealing with the more intractable problems of capital rationing, risk, uncertainty and interdependence between projects. Controversies abound about the relative merits of different investment appraisal methods. One of the purposes of this study is to show that most of the essential points of difference can now be reconciled. We also aim to outline both traditional and modern methods of appraisal, and to indicate some of the outstanding problems that remain.

¹ D. W. Pearce, *Cost-Benefit Analysis* (Macmillan, London, 1971).