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THEORETICAL APPROACHES TO INVESTMENT AND THE INVESTMENT ENVIRONMENT

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Abstract: Investment plays a fundamental role in economic growth, capital formation, and long-term development. Understanding the theoretical foundations of investment and the characteristics of the investment environment is essential for formulating effective economic policies and promoting sustainable economic progress. This study examines the major theoretical approaches to investment, including classical, neoclassical, Keynesian, accelerator, and modern investment theories, and analyzes their relevance in explaining investment behavior and decision-making processes. The research explores how different theoretical perspectives interpret the relationship between investment, interest rates, expected returns, income levels, technological progress, and market expectations. In addition, the study investigates the concept of the investment environment, which encompasses economic, political, legal, institutional, financial, and social factors influencing investment activities. Particular attention is given to macroeconomic stability, regulatory quality, infrastructure development, access to finance, and government policies as critical determinants of investment attractiveness.

Key words: investment theory, investment environment, economic growth, Keynesian theory, neoclassical theory, investment climate, capital formation, investor confidence, macroeconomic stability, sustainable development.

In our century, investment is the main part of not only the world economy but also people too. "People invest for reasons such as earning a higher income on top of their normal income, enjoying potential capital appreciation from their investments, securing (to the extent possible) a better retirement, or even for the thrill of the act itself. Investing is practical and is a means to an end. Therefore, for all the above reasons you have decided to enter this exciting field, or perhaps because you have heard that employment opportunities in the areas of finance and investments are growing and are highly rewarding".

In general, finance is divided into three related areas of study: investments, financial markets and institutions, and corporate finance. Obviously, the area of investments involves the decisions made by individuals, companies, and institutions when forming investment portfolios.

Investing activities significantly effect to the country's economic position. International economical communication system which has been existing till now does not always mean economic integration. The world economic integration is comprehensive and highly developed communication system. One of the important criteria for internationalization and implementation of this communication system is international investment process. The concept of investment has several meanings. First of all, investment means buying stocks and bonds for the purpose of achieving financial results, and secondly, it means buying and producing real production assets and

implementation of them. But in this case, it is true only between the subjects of manufactures in economic field.

Briefly, “Investments - tangible and intangible assets and rights to them, including intellectual property rights, as well as reinvestments, invested by an investor on the basis of risks in social facilities, entrepreneurial, scientific and other activities for profit, which may include: funds, including cash (including foreign currency), targeted bank deposits, shares, stocks, bonds, bills and other securities; movable and immovable property (buildings, structures, equipment, machinery and other material values);intellectual property rights, including patented or non-patented (know-how) technical, technological, commercial and other knowledge, drawn up in the form of technical documentation, skills and production experience, necessary for organizing a particular type of production, as well as other values, not prohibited by the legislation of the Republic of Uzbekistan”. The concept of investment in general, is important economic mechanism for the economic development and financial stability of the country.

There are several approaches as a meaning. Theoretical approaches to investment refer to the various models and frameworks used to analyze investment decisions and behaviors. These approaches often include concepts from finance, economics, and behavioral psychology to understand how investors make decisions regarding allocating their resources.

Some common theoretical approaches to investment include:

1. Modern Portfolio Theory (MPT): Developed by Harry Markowitz, MPT emphasizes diversification to maximize returns while minimizing risk.

The modern portfolio theory (MPT) is a practical approach to choosing investments that aims to maximize their overall returns while keeping risk at an acceptable level. This mathematical framework is used to construct a portfolio of investments that maximizes expected return for a given level of risk. American economist Harry Markowitz introduced this theory in his 1952 paper "Portfolio Selection," which was published in the Journal of Finance. He was later honored with a Nobel Prize for his contributions to modern portfolio theory.

“The modern portfolio theory argues that any given investment's risk and return characteristics should not be viewed alone but should be evaluated by how it affects the overall portfolio's risk and return. That is, an investor can construct a portfolio of multiple assets that will result in greater returns without a higher level of risk”.

2. Efficient Market Hypothesis (EMH): This theory suggests that asset prices reflect all available information, making it impossible to consistently outperform the market.

The efficient market hypothesis (EMH) is an assumption in financial economics that asset prices reflect all available information. The direct implication is that it is impossible to consistently "beat the market" on a risk-adjusted basis because market prices only react to new information. Because the EMH is built on a risk-adjusted basis risk adjustment, so it only makes testable predictions in relation to a specific risk model. “As a result, research in financial economics since at least the 1990s has focused on market anomalies, that is, deviations from specific risk models”.

The concept that it is challenging to foresee financial market returns has been a longstanding belief in the field. This idea can be traced back to Bachelier, Mandelbrot, and Samuelson, but it is also closely associated with Eugène Fama, particularly due to his influential 1970 assessment of theoretical and empirical studies. The efficient market hypothesis (EMH) forms the basis for contemporary risk-based asset pricing theories, and models like consumption-based asset pricing and intermediate asset pricing can be considered as combinations of the EMH with risk patterns.

3. Behavioral Finance: This approach incorporates psychological theories to explain how individual biases and emotions can impact investment decisions.

It's an economic theory that explains irrational financial behavior, such as overspending on credit cards or selling off during market downturns. People often make financial decisions based on emotions rather than reason.

Behavioral finance uses financial psychology to analyze the actions of investors.

According to behavioral finance, investors are not rational. Instead, they have cognitive biases and limited self-control that lead to errors in judgment. Keep reading to learn more about behavioral finance principles. Although biases are a core part of behavioral finance, the theory also has other important elements.

Heuristics. Heuristics is the process of simplifying a problem when you don't have enough information to solve it. In these cases, you will likely use shortcuts or rules of thumb to make the decision that's right for you. Heuristics simplify the decision-making process, which means they also simplify the financial decision-making process. Without them, it will take you longer to make a decision. However, relying on diagnostics without carefully analyzing investment options can lead to irrational or inaccurate decisions.

Mental Accounting. In Accounting Mentally, you place different values on money depending on how you get it. For example, if you buy a winning lottery ticket, you may spend it all on an impromptu shopping trip, even if you budget your salary carefully. This can lead to irrational financial decisions.

Anchoring. Anchoring is a type of unconscious heuristic that involves using irrelevant information as a point reference. Historical value is the common anchor.

4. Real Options Theory: This theory views investments as options, allowing for flexibility and the ability to adapt to changing market conditions.

"Real options are choices a company's management gives itself the option to make in order to expand, change, or curtail projects based on changing economic, technological, or market conditions. Factoring in real options affects the valuation of potential investments, although commonly used valuations fail to account for potential benefits provided by real options. Using real options value analysis (ROV), managers can estimate the opportunity cost of continuing or abandoning a project and make better decisions accordingly. It is important to note that real options do not refer to a derivative financial instrument, such as call and put options contracts, which give the holder the right to buy or sell an underlying asset, respectively. Instead, real options are opportunities that a business may or may not take advantage of or realize"[1].

Investment refers to the purchase of financial assets with the expectation of generating a return or profit in the future. The investment environment refers to the various external factors that influence investment decisions, such as economic conditions, politics, regulations, market trends, and social factors.

Some key factors that impact the investment environment include:

[1] https://www.investopedia.com/

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Picture-1. Some key factors that impact the investment environment[2]

Economic conditions: Factors such as GDP growth, inflation rates, interest rates, and unemployment rates can all influence investment decisions. A strong economy generally leads to higher investment activity, while a weak economy may deter investors.

Political stability: Political stability and government policies can also impact the investment environment. Investors prefer to invest in countries with stable governments and business-friendly policies.

Regulatory environment: Regulations governing investments, financial markets, and business operations can impact investor confidence and decision-making. A transparent and predictable regulatory environment is crucial for attracting investment.

Market trends: Market trends, including fluctuations in stock prices, interest rates, and commodity prices, can influence investment decisions. Investors often rely on market analysis and trends to make informed investment decisions.

Social factors: Social factors, such as demographic trends, consumer preferences, and cultural norms, can also impact the investment environment. Investors may consider these factors when evaluating investment opportunities in specific industries or regions.

Overall, the investment environment is constantly evolving and influenced by a variety of factors. Investors must carefully consider these factors and conduct thorough research before making investment decisions to maximize returns and manage risk.

For case, contributing in a unused fabricating office may give a company with genuine alternatives for presenting unused items, uniting operations, or making other adjustments in reaction to changing advertise conditions. When choosing whether to contribute within the modern office, the company ought to consider the real options esteem the office gives. Other examples illustrations of real options incorporate conceivable outcomes for mergers and acquisitions (M&A) or joint ventures.

The investment environment refers to the broader economic, political, and social factors that influence investment decisions. Factors such as interest rates, inflation, government policies, technological advancements, and global events can all impact the investment environment.

[2] Created by author.

Understanding both theoretical approaches to investment and the investment environment is crucial for investors and financial professionals to make informed decisions and manage risks effectively.

Investment is one of the most important drivers of economic development, and its effectiveness depends on both theoretical principles and the quality of the investment environment. The study highlights that various investment theories provide different explanations of investment behavior, emphasizing factors such as interest rates, expected profitability, aggregate demand, technological change, and business expectations. Together, these theories contribute to a comprehensive understanding of investment decision-making processes. The analysis also demonstrates that the investment environment plays a crucial role in attracting and sustaining investment activities. Stable macroeconomic conditions, transparent legal systems, effective institutions, developed infrastructure, and access to financial resources are essential for creating a favorable climate for investors. In contrast, economic instability, political risks, and regulatory barriers can discourage investment and hinder economic growth.

In conclusion, strengthening the investment environment and applying sound theoretical insights are essential for promoting investment-led growth and sustainable development. Policymakers should focus on improving institutional quality, ensuring economic stability, and implementing investor-friendly policies to enhance investment activity and support long-term economic prosperity.

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