NOTION OF CAPITAL OUTPUT RATIO:

A capital output ratio which is abbreviated as COR is related to the availability of natural resources in a country. It is used to measure the capital ratio that would be used for the production of some output over a certain period of time. The capital output ratio tends to increase if the capital available in a country is cheaper than the other inputs. Therefore, the countries that are rich in natural resources have a low capital output ratio. This is because they can easily substitute the capital with natural resources in order to increase the output. When countries use their natural resources instead of capital then COR decreases.

The size of the capital output ratio can only be determined only when the amount of capital that has been used for production of output is known. If depriciation

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of capital is assumed as constant, then the capital output ratio is calculated by the ratio of GDP invested each year.

Other things that determine the COR is innovation and technical progress. If lot of capital is used to undertake some project of technological development, then, the COR will increase. On the other hand, countries that employ more labour their capital output ratio will be low.

Apart from all these another factor that can determine the capital output ratio is an investment. The more the rate of investment is, more will be the capital output ratio. Similarly, lower rate of investment will bring low capital output ratio. Countries which can double its capital in ten years than the ones which can double in twenty years will have a higher capital output ratio.

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INCREMENTAL CAPITAL OUTPUT RATIO

The incremental Capital Output Ratio (ICOR) is a metric that assesses the marginal amount of investment capital necessary for an entity to generate the next unit of production. Overall, a higher ICOR is not prefered because it indicates that the entities production is inefficient. The measure is used predominantly in determining a country's level of production efficiency.

USES OF CAPITAL OUTPUT RATIO:

Some critics of ICOR have suggested that its uses are restricted as there is a limit to how efficient countries can become as their processes become increasingly advanced. For example, for a developing country can increase its GDP by a greater margin with a set amount of resources than its developed

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counterparts can. This is because the developed country is already operating with the highest level of technology and infrastructure.

LIMITATIONS OF CAPITAL OUTPUT RATIO:

It may, however, be pointed out that the concept of capital output ratio suffers from certain limitations. Its precise calculations present some formidable difficulties. Hence, the relation between capital investment and output, which the capital - output ratio suggests, may prone to be misleading. It would, therefore, be hazardous to base the estimates of capital requirements of an industry or economy on such ratios.

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