

WHAT DETERMINES THE USE OF CAPITAL BUDGETING METHODS IN MUTUAL FUND INDUSTRY IN PAKISTAN

By

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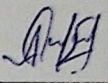
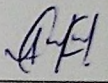
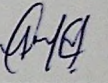
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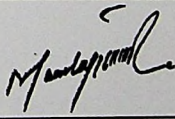
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ABSTRACT

Purpose

This study aims to examine the type of capital budgeting technique used by the asset management companies in the mutual fund industry in Pakistan and the impact of firm size and investment amount on their usage. The study also examines the significance of the capital budgeting methods and intends to find out the impact of this significance on the use of primary capital budgeting technique used.

Methodology

SPSS is used as a tool for analysis of data and cross tabulation is applied on each variable to ascertain the association among them with the help of Pearson's Chi-Square test. Survey questionnaire was used to gather primary data whose responses were then tabulated using SPSS, v23. 11 asset management companies in Pakistan are contacted to gather the required data.

Findings

Findings of the study reveals that IRR and NPV are the two most extensively used methods in capital budgeting and their usage is directly influenced by the amount of investment being considered for a project or investment avenue. Results also show that there is no association among the firm size and the primary budgeting technique applied. Furthermore, the respondent's answers on the comparative reputation and importance of the practises have been studied which revealed that some of the firms rely on the significance of these methods while making decisions for long term investments but the association between capital budgeting methods and their significance is weak.

Practical Implications

The results derived from the research are applicable to the companies in mutual fund industry in Pakistan. This study may help them to analyse the investment opportunities before making capital budgeting decisions and to be effective in their long term projects.

Key Terms: NPV, IRR, Capital Budgeting, Association, Significance

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