The Impact of Monetary Inflation on Investment Decisions in Jordanian Industrial Companies

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Abstract

It's a paper that studying money inflation that is an associated with the investment process and is noted to almost affect both Foreign Direct Investment (FDI) and domestic direct investment (DDI) simultaneously. Industrial development issues are often related to investment process in Jordan. The study highlights how financial inflation affects decisions of investment of most industrial companies in Jordan. Through this study future studies will be conducted with the conceptual structure of investment decisions through monetary inflation as a shape of capital, commodities, and import inflation in Jordanian industrial companies. To acquire the important information that helped to justify the study hypothesis, a question. To confirm the direct investment decisions and inflation relationship, Pearson's Correlation Test formula was used in this analysis. The entire results found: the lowest coefficient was in the overall correlation coefficient for imported inflation and the reserved variables. It was noted that when other variables decrease, the rising in most imported inflation might be compensated. In other hand, the remaining variables' correlation coefficient had a positive value.

Keywords: inflation, monetary inflation, investment, investment decisions

1. Introduction

Inflation is a common economic phenomenon of the world countries characterized by prices increasing by an increasing level. This incessant level increasing of the price has encouraged economic researchers to conduct studies to explore its causes through in-depth studies. The inflation impact on the economy of two-level after five decades of crisis still continues to appear. Inflation has been observed to often affect all monetary and economic fundamentals, including monetary and economic theories that crystallize based on location, impact, and time. Therefore, high inflation level and devaluation often strongly affects the economy that may affect long-term and short-term investment decisions of most organizations. However, most investments aim to increase profits and maximize, and about inflation event, they are threatened with bankruptcy and outcome interest loss (Al-Shabib, 2018). Inflation reduces the power of purchasing of currency upon Investment decisions of Jordanian industrial companies (Al-Rawi, 1999).

Presently, the persistent rise in the inflation and prices are the leading causes of many problems that individuals or companies may face especially individual consumers and industrial companies. Therefore, their decisions of investment affect the thrive, profits and continuity of their businesses. Therefore, the paper indicates how inflation, capital, and imported inflation has an effect on various products in the Jordanian industrial companies.

1.1 The Study Importance

The monetary inflation effect on the investment decisions of Jordanian industrial companies are indicated in the study. This study is aiming to contribute and strengthen current literature with the framework of decisions of investment using monetary inflation, that is interpreted by capital, goods and inflation imports in Jordan industrial companies. According to researcher knowledge, this paper has not been effectively resolved by previous research. Therefore, this paper will be a scientific resource for the future studies.

2. Literature Review

2.1 Inflation

It's not s specific economic concept, because no contracts are between competent agencies which can be the correct definition. It is worthy to notice that the inflation concept is counted through many cases and observations that are considered independent of other factors. However, this independence confuses defining this concept.

Inflation is the sustained increasing of the whole price level. This reflects increasing in cash circulation without associated increase of services and goods amount (Fase & Folkertsma, 1996, p.49). It is a continuous increase in public price levels (Friedman, 1960). It is known as the state of high cash income such as wages or profits (Mishkin, 2007). Generally, depending on currency devaluation nature, prices like to increase. Furthermore, by definition it's a continuous upward movement of prices that leads to their rise resulting in more demand than supply (Galí, 2015).

However, the researcher considers inflation as a general rise in the price level, which makes a large gap between goods amount and expenses based on income levels.

2.2 Characteristics of Inflation

Inflation is characterized generally by high prices. This nature of rise in price level is however not precise. Vestin (2006) indicated that this increase may be irregular (Vestin, 2006). Some writers also believe that the inflation is a state of a constant movement of high prices in the markets. Moreover, inflation can be movement of private price level and public one upwards coupled with persistent decrease in purchasing power (Evans, 2012). Inflation can involve a dual content of that theory that is; an unusual rise in level of price or the general price movement caused by the currency cash element as main driving force.

2.3 Types of Inflation

Many types of inflation share common links and are characterized according to various criteria that define the concept of inflation as an economic phenomenon. Therefore, the types of inflation can be discussed in many different classifications, which are classified by the Valley et al. (2014) and Brigo and Mercurio (2007).

2.3.1 Commodity Inflation

This is an inflation of products that is highly profitable in these commodities' industry (Yassin, 2005). This inflation type is observed by the commodities production as it's caused by a rise in the consumption expenditures rather than savings (Dawood, 2001, p.201).

2.3.2 Capital Inflation

This inflation type shows a rise in the goods value invested against their costs of production and their outcomes during the outbreak of these inflationary trends, it includes the immediate sustainable profits achieved in consumption sector and investment (Gujjani, 2011)

Also, investment goods will experience high profits in the commodity manufacturing industries during this inflation type through investment (Bernholz, 2015).

2.3.3 Import Inflation

This inflation type is caused majorly by the increasing in prices as a reflection of the inflation flow in the world through imports. Therefore, services and goods exported to country are influenced by inflation and it's passed on to goods and services of other countries (Raj & Jain, 2008). Inflation here is associated with foreign trade transactions and it causes the worker to demand a corresponding rise in their salaries and wages. Therefore, this increase becomes an effective demand (Nell, 2004).

2.4 Investment Concepts

The investment concept, by definition, is benefit that is expected over a time period by the proper utilization of existing assets and funds (Aivazian et al., 2005). Investment has multiple definitions in science of finance and economy. It's possible to refer to investment as physical assets acquisition through the funds use and the impact of its utilization in the process production (Yahya, 2001, p.8).

In Economic terms Investment is defined as the injection of capital funds in a current project whether it is for production services or renewal and modernization to obtain a future return or benefit, (Al-Shabib, 2018, p.14))

Investment in macroeconomics implies the efficient allocation of existing economic resources with the following concepts (Blaug, 1997):

First concept: investment is the financial security assets purchase like stocks plus bonds.

Second concept: Is the capital goods or assets purchase, such as machinery or equipment, which is considered as the origin and tools for the goods production.

The investment concept is usually considered by businessmen and executives as the physical assets and financial assets purchase. Investment through the capital use is very significant as against investment via financial instruments (Brealey et al., 2012, p.54). Investment can be defined as postponing the financial instruments use for future periods and then use these funds for investment, employment, and development instead of accumulating or hoarding (Tirole, 2010).

The concept of investing in financial principles can be effective employment of capital which is achieved by channeling the savings use in activities which leads to goods or services creation aimed at meeting the members of society economic needs and achieving prosperity (Shukairi et al., 2016).

Therefore, investing in a modern concept is the optimal utilization of tangible financial assets in activities that will generate profits and money from them. Investments are done to obtain tangible and intangible cash flow to compensate for unforeseen future risks.

2.5 The Purpose and Importance of Investment

The principal purpose of an investment is the need for individuals, groups, and organizations to generate future returns to increase wealth and finance unforeseen events (Al-Rawi, 1999, p.89; Al-Shabib, 2018). Investment results that aimed at creating wealth and development are considered using financial and economic methods after the fund is sacrificed.

Some researchers believe that investment is related to (Shakiri et al., 2016):

1- Sacrificing funds, cash and other assets

2 - The possibility of receiving future returns is unpredictable

3 - The need for more cash

2.6 Investment Decision

Investment decisions affect the organization future, it is the hardest decisions investors of various establishments and organizations have to face. Some disadvantages of investment decisions are its dependency on the organization's expectations, objectives, activities, and policies (Saunders & Cornett, 2003). Investment decisions are influenced by available data accuracy and environment to reach a remarkable result. This is one of the most important bases for making precise investment decisions. Accurate and Good information is got from accurate and well-prepared information (Al-Rawi, 1999, p.32).

2.7 Types of Investment Decisions

There are many investment decisions types made by institutions that are different in type and the investment duration. Investment decision is an important foundation in the organizations work, establishments and economic units of all types and forms. In general, it's divided to two parts:

2.7.1 Direct Investment Decision

These are real investment decisions made by real assets purchase such as real estate and land, imported goods, machinery and other things in various companies. This investment means the assets acquisition with additional economic value and economic benefits such as manufacturing of a product (Hou et al., 2015). It also involves companies that make direct decisions to obtain maximum profits when at risk and other inflationary phenomena. The real concept of these decisions is to achieve wealth as the main objective which is considered "Direct investment" or "project". Therefore, direct investment decisions include direct investments in all areas, whether local or external (Dawood, 2016).

2.7.2 Indirect Investment Decisions

This includes institutions that possess certain assets that are intangible and are not real when presented as stocks or bonds or certificates of deposit, etc. (Turvey, 2017, p.149).

3. Previous Studies

3.1 Geofrey T. Mills (1996), Titled: The Impact of Inflation on Capital Budgeting and Working Capital

This article describes how the inflation affects the capital budgeting process. From the study, Capital costs tend to directly proportionate to the rate of inflation on a one-time basis thereby causing a multiplier effect. this article found that a significant degree of net working capital as a proportion of the overall capital needed. This leads to that the effect of inflation on capital expenditure can be greater as the net working capital is higher.

3.2 Cizkowicz and Andrzej Rzońca (2013), Title: Does Inflation Harm Corporate Investment? Empirical Evidence from OECD Countries

Studying the period 1960 to 2005, the researchers examined the relationship between inflation and corporate investment, using 21 countries that are OECD members as the study sample. The study indicates that investment and inflation are significantly negatively related. They suggested that non-linear relationship of product growth and inflation comes from non-linear relationship of investment plus inflation. Therefore, the central bank can use this negative behavior during the slowdown by extending the economic recovery period.

3.3 Konstantinos Garoufalis (2017), Title: Investment Decisions and Inflation

This is a paper of adopts the investment assessment techniques in addressing the issue of inflation. Normally, investment involves cash outcomes, followed by benefits from cash and inflation that will raise level of current price by an amount that increases over time. The study said that impact of not addressing the inflation problem on investment is significant. However, addressing the inflation problem in the process of assessment serves as proxy allowance for factors known as risks.

3.4 Noura Abu Asab and Alaaeddin Al-Tarawneh (2018), Title: The Impact of Inflation on Investment: The Non-Linear Nexus and Inflation Threshold in Jordan

This research highlights non-linear relationship that is between inflation and investment in most manufacturing industries in Jordan. Using threshold model from 1980-2016, the research found that investment can be withdrawn when rates of inflation are not favorable (inflation is above 10% level). For the investment sustainability, the inflation rates must be less than (10%).

4. Study Model and Hypotheses

By the problem of study and literature mentioned above, including some previous research, the researcher prepared the following study models. As showed in Figure 1, researchers propose a study model to close the gap.

{Independent} Variable	{Dependent} Variable
Monetary Inflation:	Investment Decisions:
-Direct Investment Decisions	-Capital Inflation
-Indirect Investment Decisions	- Commodity inflation
	- imported inflation

Figure 1. Study model

Table 1. Study Variables

Variables	Dimensions	No. of Questions	References
Independent Variable Inflation	Capital Inflation	13-18	Ireland, 2009
Independent Variable Inflation	Commodity inflation	7-12	Yassin, 2005
Independent Variable Inflation	Imported inflation	1-6	Raj et al., 2008
Dependent Variable Investment Decisions	Capital Inflation	19-24	Duflo & Saez, 2002
Dependent Variable Investment Decisions	Indirect Investment Decisions	25-30	Hou et al., 2015

Source: Prepared by researcher

5. Method and Procedures

5.1 Study Methodology

The monetary inflation impact in the decisions of investment is mentioned in the study. The industrial organizations in Amman Stock Exchange list was the study field. Descriptive analysis method was used to achieve the study aim. The descriptive approach is also adopted to represent study variables' theoretical framework. The

approach used in analysis is depending on regression plus correlation variables result the study. These variables were derived from study samples responses as obtained by the questionnaire.

5.2 Demographics

257 employees in 4 Jordan industrial companies were the overall population.50 employees were also selected as random sample.

Table 2. Questionnaires distributed, retrieved, and valid for the statistical analysis

Study Sample	Number of Questionnaires distributed	Number of Retrieved questionnaires	Valid questionnaires for statistical analysis
Workers	50	45	40

Source: Prepared by the researcher

5.3 Study Tool

for collection of data needed to verify study hypotheses, a questionnaire consisting of some paragraphs was designed as follows:

Independent Variable: the monetary inflation is measured using the three dimensions

First Dimension: Imported inflation and paragraphs (1-6)

Second Dimension: Commodity inflation and guarantees paragraphs (7-12)

The third Dimension: Capital inflation, paragraphs (13-18)

Dependent Variable: Investment decisions

The First Dimension: Direct decisions and paragraphs (19-24)

Second Dimension: Indirect decisions, paragraphs (25-30)

The Likert Scale is used for determination of level of response. This scale is easy plus widely used to know methods of determining of response level, and it is as: 1-5, with 1 still not fully agreed, 5 fully agreed. The importance level for the responses' computational locality was determined using the equation:

5-1 / 3 = 1.33 and then distributed as: 1-2.33 Poor, 2.34-3.66 average, 3.67 -5 high

5.4 Tool Reliability and Stability

About study validity, questionnaires group was presented to experts' group who were guided by their views in the paragraphs ability to measure variables. To confirm the responses 'consistency in the sampling units, the Cronbach Alpha value was calculated. The overall ratio of response stability to questionnaire paragraph was 86.4%, which exceeded the acceptable minimum rate.

Table 3. Stability coefficient in the variables of study (Alpha Cronbach Scale)

Variables	Imported inflation	Commodity inflation	Capital Inflation	Direct Investment Decisions	Indirect Investment Decisions	General stability rate
Alpha Kronbach	0.77	0.89	0.613	0.865	0.821	0.864

6. Conclusions and Recommendations

6.1 Results

First: In ascertaining study variables relationship, Pearson correlation coefficient was extracted among all study variables as shown within table below.

Table 4. Coefficient of Pearson correlation in study variable

	Imported inflation	Commodity inflation	Capital Inflation	Direct Investment Decisions	Indirect Investment Decisions
Pearson Correlation	1				
Sig. (2-tailed)					
Pearson Correlation	-.446	1			
Sig. (2-tailed)	.004				
Pearson Correlation	-.233	.406**	1		
Sig. (2-tailed)	.147	.009			
Pearson Correlation	-.142	.676**	.555**	1	
Sig. (2-tailed)	.381	.000	.000		
Pearson Correlation	-.120	.419**	.561**	.601**	1
Sig. (2-tailed)	.460	.007	.000	.000	

The inflation and direct investment decisions relationship is placed in the above table with Pearson (676) and levels with statistical significance (0.00). on other hand, the lowest coefficient is observed that all (correlation coefficient) between inflation at Import and remaining variables are reversed. Therefore, any increase in imported inflation can be compensated by the reduction of other variables. On other hand, the remaining (correlation coefficient) between variables are positive.

6.2 Hypothesis

Key assumptions: At ($\alpha = 0.05$) significance level, the impact of inflation in its dimension (Capital inflation, commodities, imported inflation) isn't statistically significant on investment decisions expressed in direct plus indirect decisions of investment and in Jordanian industrial companies.

The main hypothesis is from the coming assumptions:

1- First hypothesis: impact of capital inflation in investment decisions in their dimensions (Direct investment decisions, indirect decisions of investment) at significance level ($\alpha = 0.05$) isn't statistically significant in the companies of industry of Jordan.

2- Second sub-hypothesis: impact of commodity inflation in investment decisions in their dimensions (Direct investment decisions, indirect decisions of investment) at significance level ($\alpha = 0.05$) isn't statistically significant in the companies of industry of Jordan.

3- The third sub hypothesis: impact of imported inflation in investment decisions in their dimensions (Direct investment decisions, indirect decisions of investment) at significance level ($\alpha = 0.05$) isn't statistically significant in the companies of industry of Jordan.

6.2.1 Hypothesis Testing

The multiple regression tests result at statistical significance at 0.05 is:

The main hypothesis testing results reveal that impact of financial inflation in investment decisions in their dimensions (direct investment) at significance level ($\alpha = 0.05$) isn't statistically significant in an ASE registered company in Jordan, excluding import inflation, commodity inflation, and capital inflation.

Table 5. Regression test results for sample responses on paragraphs associated with the main hypothesis

{Model}	{Coefficients}						
	{Unstandardized Coefficients}		{Standardized Coefficients}	T	Sig.	F	Sig
	B	Std. Error	Beta				
(Constant)	-.273	.849		-.322	.750		
Imported inflation	.230	.152	.186	1.519	.138	15.764	
Capital inflation	.544	.142	.462	3.844	.000		0.000
Commodity inflation	.486	.126	.504	3.863	.000		

R: 0.754   R2:0.568

a. Dependent Variables: Investment Decisions

In Table 5, the f value of reached 15.764 and the statistical significance level is up to 1,000, which indicates rejection of the null hypothesis. This leads to that the impact isn't statistically significant at the significance level ($\alpha = 0.05$) of Commodity inflation and Capital inflation on investment decisions in their dimensions (direct investment, indirect investment) in an industrial company in Jordan included in Amman Stock Exchange list

This result means that the monetary inflation effect in all dimensions on decisions of investment making is a statistically significant. Decision making analysis of the coefficient is, up to 56.8% of the dependent variable variance in the (investment decision) illustrated by the imported inflation value.

1-First Sub-hypothesis Test Result: The result indicates that the impact of imported inflation in its dimension on investment decisions (direct investment, indirect investment) isn't statistically significant at significance level ($\alpha = 0.05$). In the industrial company in Jordan listed in the Amman stock exchange.

Table 6. Simple regression test of sample responses on the paragraphs associated with the first sub-hypothesis

Model	Coefficients				
	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	4.489	.676		6.644	.000
Imported Inflation	-.181	.198	-.146	-.913	.367

a. Dependent Variable: Investment Decisions

In Table 6 above, the t values of reached -913 and the statistical significance level is 0.367, this reflects that the impact isn't statistically significant at level of significance ($\alpha = 0.05$). No significant impact of the null hypothesis at the significance level ($\alpha = 0.05$) of import inflation on decisions of investment in all its dimensions (direct investment, indirect investment) in the industrial corporation listed on the Amman Stock Exchange in Jordan is accepted.

2-Second Sub-hypothesis Test Result: Impact of commodity inflation on decisions of investment in its dimensions (direct investment, indirect investment) at the significance level ($\alpha = 0.05$) isn't statistically significant in industrial company in Amman stock exchange List in Jordan.

Table 7. Results of simple regression test for sample responses on paragraphs associated with the second sub-hypothesis

{Model}		{Unstandardized Coefficients}		{Standardized Coefficients}	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.854	.432		4.287	.000
	commodity inflation	.587	.124	.609	4.733	.000

a. Dependent Variables: investment decisions

In Table 7, the t value of reached 4.733 and statistical significance level is 0.000. This means the impact at a level of significant ($\alpha = 0.05$) is statistically significant. Therefore, this leads to that no significant impact at the significance level ($\alpha = 0.05$) of null hypothesis has for commodity inflation on investment decisions by dimensions (direct investment, indirect investment) in the industrial corporation in the Amman stock exchange list in Jordan. Therefore, the impact of alternative hypothesis which is accepted is significant at the significance level ($\alpha = 0.05$) of commodity inflation on investment decisions in Jordanian Industrial companies registered in ASE.

3-Third Sub-hypothesis Test Result: Impact of capital inflation on the investment decisions in all its dimensions (Direct investment, indirect investment) isn't statistically significant at the significance level ($\alpha = 0.05$) in the Industrial companies in Jordan listed in Amman stock exchange.

Table 8. Results of the simple regression test of sample responses on paragraphs associated with the third sub-hypothesis

{Model}		{Unstandardized Coefficients}		{Standardized Coefficients}	{t}	{Sig.}
		{B}	{Std. Erro}r	{Beta{		
1	{Constant}	1.589	.470		3.381	.002
	Capital Inflation	.734	.149	.623	4.914	.000

a. Variable: Investment Decisions

In Table 8, the t value of reached 4.914 and statistical significance level is 0.000 and it's statistically significant at significant level. This leads to that null hypothesis is not accepted, indicating that impact isn't significant at significance level ($\alpha = 0.05$) for capital inflation on investment decisions with their dimensions (direct and indirect investment) in an industrial company in the Amman Jordan Stock Exchange list. At significance level 0.05 α, the impact of capital inflation on investment decisions is statistically significant in ASE listed companies.

6.3 Recommendations

The results found by this study suggest as follows recommendations:

- Investors should be educated on imported inflation plus their effect in national inflation.

- States should reduce imported inflation by supporting local industries and encouraging the local materials use obtained locally for production.

- a future study must be done on the import inflation and other types that made from the raised cost of importing raw materials from other world countries.

- Focusing on future studies that show inflation in Jordan.

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