

On the Measurement of Capacity Utilization: An Evidence from Indian Chemical Industry

Sarbapriya Ray and Mihir Kumar Pal

The present study attempts to estimate rate of capacity utilization in Indian Chemical Industry at aggregate level and analyze its trend during a period of 25 years. In this paper, optimal output is defined as the minimum point on the firm's short-run average total cost curve and the rate of capacity utilization is merely ratio of its actual output to capacity output level. A mode is used to determine the optimal capacity output. We find that economic measure of capacity utilization is always higher than engineering measure and at times greater than unity and varies widely than engineering measure. A declining trend of capacity utilization is noticed after mid 90's due to slow increase in actual output resulting from stagnated demand and rapid expansion of capacity output as a result of abolition of licensing rule consequent to economic reform.

I Introduction

As a part and parcel of self-appraisal, each and every industry is constantly engaged in search of tools for assessing its own current performance. The performance can be judged suitably by comparing it with the various targets, past achievements and operative capacity. Business decision-making and policy formulation by and large depend on economic indicators. Manufacturing capacity utilization is such a key indicator of economic performance which explains changes in investment, inflation, long-run output growth etc. In view of severe scarcity of capital resources in any developing country like India, capacity utilization is a crucial factor that not only affects growth but also indicates the level of resource utilization in an economy. Higher unutilized capacity implies slower growth rates. Therefore, the estimation of capacity output and its utilization will be very useful to evaluate the variations in the performance of an industry over a period of time.

Sarbapriya Ray, Senior Lecturer, Department of Commerce, Shyampur Siddheswari Mahavidyalaya, Howrah, West Bengal, India. Email: sarbapriyaray@yahoo.com.

Mihir Kumar Pal, Reader, Department of Economics, Vidyasagar University, Paschim Midnapur, West Bengal, India. Email: mihirpal@yahoo.com.

The Authors are thankful to anonymous referee for useful comments and suggestions. Responsibility for any error, however, lies fully with the authors.