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1: The microtheory of innovative entrepreneurship in SearchWorks catalog

Entrepreneurship and Innovation: The (Micro) Theory of Price and Profit William J. Baumol Abstract. This article is a step toward inclusion of the entrepreneurs, with their critical.

At the risk of some oversimplification, the answers economists have given to this question can be divided into two broad camps, one following the ideas of Adam Smith and the other following the ideas of David Ricardo. Smith, whose overriding goal was to understand the wealth-creation process, began his treatise with the lesson that the division of labor is limited by the extent of the market. As markets grew, entrepreneurship would lead to innovation, which would lead to an increasing division of labor and increased productivity. Ricardo, in contrast, envisioned economic output as being a function of the inputs of land, labor, and capital. Investment could produce more capital, but because of diminishing marginal factor productivity and the existence of fixed factors such as land, population growth would always dominate economic growth, keeping most of the population at a subsistence level of income. This characterization of Smithian and Ricardian growth is an oversimplification in the sense that both authors had a deeper understanding of the growth process than the above characterization reveals. In one sense, it is unfair to Smith and Ricardo because it does not take account of the richness of their views and insights. In another sense, however, it is an eminently fair characterization. After all of their analysis of the process of economic growth, Smith ultimately concluded that the potential for economic growth was virtually unlimited, whereas Ricardo viewed the potential for economic growth as limited by the availability of economic resources and in particular, land. If it is possible to contrast the ideas of various economists at all, it is certainly fair to characterize them according to their ultimate conclusions. Part of the reason is that the comparative static nature of economic modeling has made the production function approach of Ricardo amenable to economic modeling, whereas the innovation that leads to an increased division of labor is more difficult to model precisely. As economics has become more scientific over the twentieth century, economists have been more ready to attack problems that fit into a general equilibrium model of the economy than those that are more difficult to parameterize. The Smithian answer seems right, but Smith did not explain the process by which that innovation occurs. Kirzner provides an important insight in this regard, by describing entrepreneurship as the process of acting upon a previously unnoticed profit opportunity. As Kirzner sees it, entrepreneurial insights are profit opportunities that had previously gone unnoticed. Entrepreneurs act upon these insights and the economy becomes more productive because it is able to produce more consumer satisfaction at a lower cost. The connection between entrepreneurship and economic growth is that these previously unnoticed profit opportunities must come from somewhere, and the most common source of profit opportunities is the insights of other entrepreneurs. Entrepreneurial ideas arise when an entrepreneur sees that the ideas developed by earlier entrepreneurs can be combined to produce a new process or output. Entrepreneurial opportunities tend to appear within the context of a specific time and place, so following Hayek, a decentralized economy that allows individuals to act on their entrepreneurial insights, and rewards them for doing so, produces an environment where additional entrepreneurial insights are likely to be produced. Looked at in this way, entrepreneurship is the foundation for economic growth. Entrepreneurial insights lay the foundation for additional entrepreneurial insights, which drive the growth process. After the collapse of the centrally planned economies in Europe beginning in , it is apparent that a market environment is more conducive to economic growth than is a centrally planned environment, and empirical analysis confirms this observation. The question considered in this article is how, within a market setting, economic growth occurs. The answer, in a sentence, is that acts of entrepreneurship create an environment within which innovations build on themselves, leading to continually increasing productivity. Smithian Versus Ricardian Growth Perhaps the simplest way to differentiate Smithian from Ricardian growth within the setting of contemporary economics is to use the Solow growth model as a framework. This simple mathematical formulation allows considerable development by making simple assumptions about the

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production function. In fact, convergence has not occurred, casting some doubt on the basic framework of the Solow model, and creating its own strand of literature on convergence. Often, L is also treated as exogenous, and if one is considering per capita income, it is easy to divide by L , leaving only K and the exogenous t as explanatory factors. By investing, K can be increased, which will increase Y . This provides the foundation for the Ricardian view of economic growth. The Ricardian model of growth has been taken seriously by both economists and policy makers. Yet, despite the advice of economic growth theorists, undeveloped economies remain undeveloped even though they have undertaken substantial investment initiatives. Furthermore, the data make clear that only a small part of economic growth can be explained by increases in investment. The answer must lie somewhere else. The problem with the Solow framework is that the most reasonable alternatives for the causes of growth are K or t , and the effects of capital are easy to analyze, so they have been analyzed extensively, whereas the effects of time are nebulous and hard to analyze, so they have tended to remain exogenous. In fact, it is unlikely that time, by itself, causes growth, but rather something else that changes over time. That something else has been called technological change and, as the other alternative in the Solow framework, has itself come under close scrutiny. Other avenues might be taken within the basic Ricardian framework. Jones and Manuelli find that under different constraints, a Ricardian model need not imply convergence, suggesting that this framework might be able to be rehabilitated to conform more closely with reality. Taking a different tack, Lucas suggests that the key may be L , not K , and that in particular human capital can play the major role in development. Toward the end of his paper, Lucas discusses the idea of the external effects of human capital, and suggests that a higher population density may result in a finer division of labor and that the human capital of one person may make others more productive. Thus, Lucas begins moving the Ricardian framework toward a Smithian view of economic growth. The Smithian view of growth focuses less on the quantities of factors of production and more on the processes that are used to combine them into aggregate output. Young viewed economic growth as occurring because of increasing returns, and explicitly recognized the Smithian foundations of his analysis, but increasing returns does not sit well in the neoclassical framework, as Kaldor argued. In frequently cited articles, Paul Romer has steered the literature in a neoclassical direction. Romer shows that growth can be modeled with a factor having increasing returns, and that in such a model growth rates need not converge over the long run, which fits the facts better than the simple Solow framework. Romer focuses attention on human capital, and argues that additional investment in research could promote more economic growth. Like earlier developments from the Solow model, however, this line of reasoning focuses on the inputs into the production process rather than the process itself. The Production Process The most basic facts of economic growth weigh against focusing on the inputs into the production process, and point toward an examination of the process itself. Within the neoclassical framework, changes in the production function have had a bigger impact on economic growth than changes in the inputs into the production function. The quantity and quality of both human and physical capital are important, beyond a doubt, but they are a product of an economy and not factors given exogenously to it. Both existed in abundance in ancient China, and even today the pyramids of Egypt physical capital and the knowledge of Leonardo da Vinci human capital inspire awe, yet economic growth, as it is understood today, is a recent phenomenon. Blanchard and Fischer , pp. Extrapolating backwards leads to the well-known conclusion that economic growth at these rates cannot have been taking place for more than a few centuries. It is the process by which they are combined that has created sustained economic growth. This literature, which focuses on incentives for altering the production process, also has implications for the ways in which entrepreneurs discover new production processes. Within the Solow framework, the new production processes fall within t in the production function, and the effect of t is generally viewed as working through technological change. That still leaves the question of what produces technological change. Entrepreneurship and Technological Change Within a neoclassical framework, where things are produced by combining inputs in a production function, the most straightforward way to get technological change is to produce it. Research and development can be undertaken by combining land, labor, and capital, to produce technological change. The successes

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attributable to investment in research and development are indisputable, but research-and-development expenditures cannot be the whole story, because once the research is done, the results need to be applied to make production less costly, or even more mysteriously, to produce goods and services that have never been produced before. This is the role of entrepreneurship. Kirzner depicts entrepreneurs as people who are alert enough to spot previously unseen profit opportunities and then act on them. As Kirzner describes it, entrepreneurship involves noticing something that nobody has noticed before. However, some people are in a better position to notice certain profit opportunities than others. Those with training in mechanical engineering are more likely to spot potential profit opportunities in the design of internal combustion engines than those with training in law, for example, and somebody who never goes to the beach will not be in a position to notice the opportunity to open an ice-cream shop or T-shirt shop there. People who travel a lot might notice opportunities because of the amenities they find in one place that might not be available in another. There is, for example, an opportunity for the person who notices that a profit might be made in Indianapolis by offering a service similar to one already available and profitable in Cincinnati. Entrepreneurial alertness is itself unrelated to knowledge, and is costless in the sense that it does not use up resources. All individuals have knowledge specific to their own activities—knowledge of time and place that others do not share. This specific knowledge of time and place gives some people the chance to notice profit opportunities that others could not possibly see. How does it happen that one can see a profit opportunity that nobody before has noticed? In part, it has to do with the differences in knowledge that different individuals possess. For example, it was not a coincidence that the microprocessor was invented by an electrical engineer and not a poet. Of course, knowledge does not create entrepreneurial insight, but it does create the opportunity to notice things that could not be noticed without that knowledge, which creates a direct connection between Hayekian knowledge and Kirznerian entrepreneurship. Economic theory biases economists against thinking that it is possible to come upon previously unexploited profit opportunities, because in neoclassical competitive equilibrium, all profit opportunities have been competed away. This is true whether the entrepreneurial successes are spectacular or more mundane. Consider some great American fortunes. Andrew Carnegie was able to build the foundations of U. Steel by capitalizing on the newly developed Bessemer process. The fortunes of Bill Gates rose along with the fledgling personal computer industry. None of these individuals invented the technology that made them wealthy, but they had the insight to take advantage of an entrepreneurial opportunity. Note, however, that in each case the opportunity was newly developed, and the entrepreneurial opportunity did not go unnoticed for long. Entrepreneurial opportunities are not just lying around waiting for someone to notice them. Rather, they appear and then entrepreneurs rapidly move to take advantage of them. Where do entrepreneurial opportunities come from? Many of them come from the actions of other entrepreneurs. Henry Ford could not have succeeded in mass-producing automobiles until there was a substantial market, including infrastructure such as roads, gasoline stations, and repair facilities. Bill Gates could not have made his fortune had not Steve Jobs seen the opportunity to build and sell personal computers, and Steve Jobs could not have built a personal computer had not Gordon Moore invented the microprocessor. When entrepreneurs take advantage of profit opportunities, they create new entrepreneurial opportunities that others can act upon. Entrepreneurship creates an environment that makes more entrepreneurship possible. Yet increasing returns is a problematic concept in an economic framework because it implies that average cost continually declines. Kaldor notes the problems for general equilibrium models when firms are characterized by increasing returns, but another possibility is that the production functions of firms do not exhibit increasing returns, but firms generate positive externalities that lower the costs of production for other firms in close proximity. Individual firms do not exhibit increasing returns, but the entire economy does. This is easy to visualize as a Smithian idea. The division of labor is limited by the extent of the market, so additional firms in an area enlarge the market and allow all firms to be more productive by becoming increasingly specialized. Increased specialization is but one way in which firms can become more innovative, so a more general way to envision this idea is that the knowledge created by firms benefit other firms in close proximity, so that when

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one firm innovates, others find themselves in a better position to innovate also. Romer , depicts the process as a knowledge spillover. Knowledge, embodied in human capital, is the factor with increasing returns, meaning that investments in human capital make future investments in human capital more productive.

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2: 4 Main Features of Schumpeter's Theory of Economic Development

"The Microtheory of Innovative Entrepreneurship" provides the framework for introducing entrepreneurship into mainstream microtheory and incorporating the activities of entrepreneurs, inventors, and managers into standard models of the firm.

The word first appeared in the French dictionary entitled Dictionnaire Universel de Commerce compiled by Jacques des Bruslons and published in 1765. Cantillon considered the entrepreneur to be a risk taker who deliberately allocates resources to exploit opportunities in order to maximize the financial return. Both Say and Cantillon belonged to French school of thought and known as the physiocrats. This institution was introduced in after a period of so-called freedom of trade Gewerbefreiheit, introduced in in the German Reich. However, proof of competence was not required to start a business. While the loan from French of the word "entrepreneur" dates to the 18th century, the term "entrepreneurship" was coined around the 19th century. According to Schumpeter, an entrepreneur is willing and able to convert a new idea or invention into a successful innovation. The idea that entrepreneurship leads to economic growth is an interpretation of the residual in endogenous growth theory [clarification needed] and as such continues to be debated in academic economics. An alternative description by Israel Kirzner suggests that the majority of innovations may be incremental improvements such as the replacement of paper with plastic in the construction of a drinking straw that require no special qualities. For Schumpeter, entrepreneurship resulted in new industries and in new combinations of currently existing inputs. In this case, the innovation is incremental. It did not immediately replace the horse-drawn carriage, but in time incremental improvements reduced the cost and improved the technology, leading to the modern auto industry. In this treatment, the entrepreneur was an implied but unspecified actor, consistent with the concept of the entrepreneur being the agent of x-efficiency. For Schumpeter, the entrepreneur did not bear risk: Schumpeter believed that the equilibrium was imperfect. Schumpeter demonstrated that the changing environment continuously provides new information about the optimum allocation of resources to enhance profitability. Some individuals acquire the new information before others and recombine the resources to gain an entrepreneurial profit. Schumpeter was of the opinion that entrepreneurs shift the production possibility curve to a higher level using innovations. In the 20th century, entrepreneurship has been extended from its origins in for-profit businesses to include social entrepreneurship, in which business goals are sought alongside social, environmental or humanitarian goals and even the concept of the political entrepreneur. According to Paul Reynolds, founder of the Global Entrepreneurship Monitor, "by the time they reach their retirement years, half of all working men in the United States probably have a period of self-employment of one or more years; one in four may have engaged in self-employment for six or more years. Participating in a new business creation is a common activity among U.S. Entrepreneorial activities differ substantially depending on the type of organization and creativity involved. Entrepreneurship ranges in scale from solo, part-time projects to large-scale undertakings that involve a team and which may create many jobs. Many "high value" entrepreneurial ventures seek venture capital or angel funding seed money in order to raise capital for building and expanding the business. Beginning in 1999, an annual "Global Entrepreneurship Week" event aimed at "exposing people to the benefits of entrepreneurship" and getting them to "participate in entrepreneurial-related activities" was launched. While most entrepreneurial ventures start out as a small business, not all small businesses are entrepreneurial in the strict sense of the term. Many small businesses are sole proprietor operations consisting solely of the owner or they have a small number of employees and many of these small businesses offer an existing product, process or service and they do not aim at growth. In contrast, entrepreneurial ventures offer an innovative product, process or service and the entrepreneur typically aims to scale up the company by adding employees, seeking international sales and so on, a process which is financed by venture capital and angel investments. In this way, the term "entrepreneur" may be more closely associated with the term "startup". Successful entrepreneurs have the ability to lead a business in a positive

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direction by proper planning, to adapt to changing environments and understand their own strengths and weakness. A long tradition of academic research explores the experiences and strategies of ethnic entrepreneurs as they strive to integrate economically into mainstream U. Classic cases include Jewish merchants and tradespeople in large U. She mentions that in modern organizations, human resources need to be combined in order to better capture and create business opportunities. In their book *The Business of Culture*, Rea and Volland identify three types of cultural entrepreneur: Feminist entrepreneurs are motivated to enter commercial markets by desire to create wealth and social change, based on the ethics of cooperation, equality and mutual respect. Social entrepreneurship Social entrepreneurship is the use of the by start up companies and other entrepreneurs to develop, fund and implement solutions to social, cultural, or environmental issues. Social entrepreneurship typically attempts to further broad social, cultural, and environmental goals often associated with the voluntary sector [53] in areas such as poverty alleviation, health care and community development. At times, profit-making social enterprises may be established to support the social or cultural goals of the organization but not as an end in itself. For example, an organization that aims to provide housing and employment to the homeless may operate a restaurant, both to raise money and to provide employment for the homeless people. Nascent[edit] A nascent entrepreneur is someone in the process of establishing a business venture. In this sense, over time, the nascent venture can move towards being discontinued or towards emerging successfully as an operating entity. The distinction between the novice, serial and portfolio entrepreneurs is an example of behavior-based categorization. Nascent entrepreneurship that emphasizes the series of activities involved in new venture emergence, [65] [66] [67] rather than the solitary act of exploiting an opportunity. With this research, scholars will be able to begin constructing a theory of the micro-foundations of entrepreneurial action. Scholars interested in nascent entrepreneurship tend to focus less on the single act of opportunity exploitation and more on the series of actions in new venture emergence, [65] [68] .. For instance, nascent entrepreneurs often look for and purchase facilities and equipment; seek and obtain financial backing, form legal entities, organize teams; and dedicate all their time and energy to their business [69] Project-based[edit] Project entrepreneurs are individuals who are engaged in the repeated assembly or creation of temporary organizations. Industries where project-based enterprises are widespread include: A project entrepreneur who used a certain approach and team for one project may have to modify the business model or team for a subsequent project. Project entrepreneurs are exposed repeatedly to problems and tasks typical of the entrepreneurial process. Resolving the first challenge requires project-entrepreneurs to access an extensive range of information needed to seize new investment opportunities. Resolving the second challenge requires assembling a collaborative team that has to fit well with the particular challenges of the project and has to function almost immediately to reduce the risk that performance might be adversely affected. Another type of project entrepreneurship involves entrepreneurs working with business students to get analytical work done on their ideas. Millennial[edit] The term "millennial entrepreneur" refers to a business owner who is affiliated with the generation that was brought up using digital technology and mass media—the products of Baby Boomers, those people born during the s and early s. Also known as Generation Y, these business owners are well equipped with knowledge of new technology and new business models and have a strong grasp of its business applications. There have been many breakthrough businesses that have come from millennial entrepreneurs such as Mark Zuckerberg, who created Facebook. The comparison between millennials who are self-employed and those who are not self-employed shows that the latter is higher. The reason for this is because they have grown up in a different generation and attitude than their elders. Some of the barriers to entry for entrepreneurs are the economy, debt from schooling and the challenges of regulatory compliance. The entrepreneur is willing to put his or her career and financial security on the line and take risks in the name of an idea, spending time as well as capital on an uncertain venture. However, entrepreneurs often do not believe that they have taken an enormous amount of risks because they do not perceive the level of uncertainty to be as high as other people do. Knight classified three types of uncertainty: Risk, which is measurable statistically such as the probability of drawing a red color ball from a

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jar containing five red balls and five white balls Ambiguity , which is hard to measure statistically such as the probability of drawing a red ball from a jar containing five red balls but an unknown number of white balls True uncertainty or Knightian uncertainty, which is impossible to estimate or predict statistically such as the probability of drawing a red ball from a jar whose contents, in terms of numbers of coloured balls, are entirely unknown Malala Yousafzai , a Pakistani activist, social entrepreneur and youngest-ever Nobel Peace Prize winner Entrepreneurship is often associated with true uncertainty, particularly when it involves the creation of a novel good or service, for a market that did not previously exist, rather than when a venture creates an incremental improvement to an existing product or service. Indeed, measures of coachability are not actually predictive of entrepreneurial success e. This research also shows that older and larger founding teams, presumably those with more subject expertise, are less coachable than younger and smaller founding teams. Strategies that entrepreneurs may use include: Innovation of new products, services or processes [82] Continuous process improvement CPI [82] Exploration of new business models Use of technology [82].

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3: CiteSeerX " Entrepreneurship and Innovation: The (Micro) Theory of Price and Profit

This article is a step toward inclusion of the entrepreneurs, with their critical role in innovation and growth, into elementary mainstream microtheory.

Role of Entrepreneur 3. Cyclical Process or Business Cycle and 4. Schumpeter starts his analysis of development process with the concept of circular flow. It implies a condition where economic activity produces itself continuously at constant rate through time. Thus, it means a continuous activity and no destruction. It is the characteristic of an economy in stationary state. The circular flow is similar to circulation in blood in an animal organism. Circular flow is based upon a state of perfect competitive equilibrium in which costs are equal to receipts and prices to average costs. The main features of circular flow are as under: This means demand and supply are in equilibrium at each point of time. Theory of Economic Development: The above stated features imply that circular flow is used in a static setting. To make it dynamic and consistent with development, changes must take place in flow system. These changes can be brought through innovations. Innovation may be defined as a change in existing production system to be introduced by the entrepreneur with a view to make profits and reduce costs. The innovation is closely linked with Schumpeterian concept of development. When changes take place in the economy, circular flow is disturbed and the development process starts. He assumed that change is the basic element of dynamic process, and those changes come in the form of innovations. Any innovation may consist of: The new combinations of these factors are essential for the development process to start. It is to be energised by the development agents and such agents are innovators or entrepreneurs. The entrepreneur is considered as the hero in the Schumpeterian development. Role of the Entrepreneur: Entrepreneur or innovator is the key figure in Schumpeter analysis of the process of development. He occupies the central place in the development process because he initiates development in a society and carries it forward. Entrepreneurship is different from managerial activity. A manager simply directs production under existing techniques but entrepreneurship, requires the introduction of something new. An entrepreneur is also different from a capitalist. The capitalist simply furnishes the funds while the entrepreneur directs the use of these funds. As in economic system, there is high degree of risk, thus entrepreneur is motivated: Three things are necessary for the performance of the entrepreneurial function: For this, he needs purchasing power in the form of credit and capital which he can borrow from banks and other financial institutions. Thus, credit and bank plays a vital role in economic development. The invention in one field of the economic activity will induce inventions in the related fields. Thus, credit creation becomes an important part of the development model. An entrepreneur innovates to earn profits. Profits arise due to dynamic changes resulting from an innovation. They continue to exist till the innovation becomes general. Breaking the Circular Flow: Schumpeter regards economic development as a dynamic and discontinuous process. The society progresses through trade cycles. In order to break the circular flow, the innovating entrepreneurs are financed by bank credit expansion. Since investment in innovation is risky, they must be paid bank interest on it. Innovations in one field may induce other innovations in related fields. For example, the emergence of a motor car industry, may in turn, stimulated a wave of new investments in the construction of highways, rubber tyres and petroleum products etc. But the spread is never cent percent. The spread of innovation can be explained with the help of a figure. The curve OL represents that firms adopt an innovation slowly to start but soon the adoption of innovation gains momentum but it never reaches percent adoption by firms. Business Cycle or Cyclical Process: The next component of development according to Schumpeter is the business cycle. He believes that business cycle or crisis is not merely the result of economic factors but also of non-economic factors. How booms and depression appear and collapse? According to Schumpeter, the creation of bank credit is assumed to accelerate money incomes and prices in the economy. It creates a cumulative expansion throughout the economy. With the increase in the purchasing power of the consumers, the demand for the products increases in relation to supply. The rising prices and the high rates of

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profits stimulate producers to raise investments by borrowing from the banks. The credit inflation starts with the entrance of new entrepreneurs in the field of production, which superimposes on the primary wave of innovations. This may be called boom or prosperity period. In this stage, the economic activities reach their maximum heights and the idle or unemployed resources are minimised. During the boom period, the new products start appearing in the market with the entrance of new entrepreneurs. These products displace the old ones and thus decrease their demand in the market. Consequently, the prices of old products fall. With a view to liquidating their stocks, the old firms start selling their goods at a low price and hence most of the firms incur losses and some firms are even forced to run into loss. Investment declines and unemployment starts, leading to a fall in the aggregate demand. As the entrepreneurs start repaying bank loans, the quantity of money in circulation is reduced and prices start falling. Profits too decline and come to zero point. Uncertainty and risk increase. A wave of pessimism sweeps the entire economy and the boom period ends with the appearance of the phase of depression. Schumpeter believes in the existence of the long wave of upswings or boom and downswings or depression. The economic forces of recovery come into operation and ultimately bring about a revival. Once again the economy comes across the equilibrium, and the new boom period starts with a new set of innovations. In the prosperity period, as the above figure reveals, the economic development proceeds more rapidly due to over optimism and speculation. The business cycle continues to fall below the level of equilibrium with the beginning of the recession and ultimately reaches the point of depression. In the end, the retake of economic activities leads to revival of the economy. In the Schumpeterian analysis of development entrepreneurs have to play the central role in business cycles. They initiate the economic development in the spontaneous and discontinuous manner. The cyclical swings are the cost of economic development under capitalism. The Decay of Capitalism: The continuous technical progress results in an unbounded increase in total and per capita output. As long as technological progress takes place, the rate of profit is positive. Hence, there can be no drying up of sources of investible funds nor any vanishing of investment opportunities. The very success of capitalism undermines the social institutions which protect it and inevitably creates conditions in which it will not be able to live and which strongly point to socialism as the heir apparent. Capitalism can maintain itself only so long as entrepreneurs behave like knights and pioneers. Schumpeter holds a very pessimistic view about the survival of capitalism. He advocated capitalist system of production yet he was not unaware of the weakness of this system. Due to its drawbacks, capitalism disintegrates and yields place to socialism, Schumpeter gives the following reasons for the disintegration of capitalism: Schumpeter observes that the success of early captains of industry have made innovation a routine activity. It tends to degenerate into a dis-personalised, routine activity carried on in a big business through highly trained managers. The new lords of business are managers, depersonalised owners and private bureaucrats. Another factor responsible for weakening the foundations of capitalism is the destruction of its institutional frame work. The entrepreneur by his own success tends to destroy not only his economic and social functions but also the institutional framework within which he works. The tendency towards concentration and increase in the size of production units destroy capitalistic institutions like private property and freedom of contract. In case of big concerns, the proprietors are small and large shareholders who are dematerialised and de-functionalised by professional and salaried managers and thus, the proprietary interest is replaced by large and small stock holders. These changes tend to weaken the concept of private property and free individual contract. The destruction of protecting political strata will administer the last blow to capitalist system. With the progress of capitalism, not only the functions of the entrepreneur and the institutional frame work of capitalism crumble but the group that protected early capitalism politically is also destroyed. The very success of capitalism is destroyed by the royal power. The progress of capitalism makes industrialists and merchants economically powerful and they begin to dominate in political field.

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4: Library Resource Finder: Table of Contents for: The microtheory of innovative entrepreneur

Bringing entrepreneurship and innovation into the theory of value -- Entrepreneurship in economic theory: reasons for its absence and goals for its restoration -- Toward characterization of the innovation industry: the David-Goliath symbiosis -- Entrepreneurship, invention, and pricing: toward static microtheory -- Oligopolistic "Red queen."

The following points highlight the top fourteen contributions of Alfred Marshall to Economics. Some of the contributions are: Definition and Laws of Economics 2. Wants and Their Satisfaction 4. Marshallian Utility and Demand 5. Elasticity of Demand 7. Supply and Cost 8. Factors of Production and Others. Definition and Laws of Economics: Thus it is on the one side a study of wealth and on the other and more important side, a part of the study of man. It deals with the economic aspect of man and not social or political or religious aspect of his life. It explains their ordinary business of life, which consists of earning and spending money, for the satisfaction of their necessities of life like food, clothing and shelter. Marshall classified human activities into activities that contribute to material welfare and activities that do not contribute to material welfare. Marshall shifted the emphasis from wealth to man. Wealth is only a means to welfare. Hence he has given primary importance to man and secondary importance to wealth. Economic laws are the statements of economic tendencies and are hypothetical. As far as the method of study is concerned, Marshall considered both induction and deduction as useful for economics. Both are complementary to each other. Marshall was the great interpreter of the method of partial equilibrium. The forces influencing an economic phenomenon are too numerous and it is very difficult to analyse all of them to arrive at a complete explanation of the phenomenon. Therefore, the best method is to keep other forces constant, and study the forces influencing the phenomenon. Wants and Their Satisfaction: Marshall fully analysed the characteristics of wants and distinguished between necessities, comforts and luxuries. He believed that consumption was the beginning and end of all economic activities and so he discussed consumption first and production afterwards. Marshallian Utility and Demand: Price of a commodity is determined not by supply alone as the classical economists believed and not by demand alone as the utility theorists believed but by both demand and supply curves. Marshall takes up the theory of demand to analyse consumer behaviour. A rational consumer aims at maximising satisfaction from his consumption. The amount of satisfaction is closely related to the quantity of that commodity consumed by the consumer. Thus demand is based on the law of diminishing marginal utility. Demand refers to the quantity of a commodity demanded at a certain price, other things remaining the same. The individual demand curve can be directly derived from the law of diminishing marginal utility. Assuming the marginal utility of money to be constant as the satisfaction from the additional units of a commodity diminishes, the price offered to additional units will fall. Hence the demand curve slopes downwards. These individual demand curves can be added together to get market demand curve. The market demand curve represents the total demand of all the consumers for a commodity at various prices. On the basis of diminishing utility, Marshall has developed the law of substitution. So far consumer behaviour has been analysed with reference to only one commodity. In practical life, the consumer has to choose between more than one commodity. A rational consumer will spend his money in such a way that his total satisfaction is maximum. He will go on substituting one commodity for another till he gets maximum satisfaction. The consumers are generally prepared to pay a higher price for a commodity rather than go without it. But they actually pay less for it. It is another important concept which Marshall gave to economics. He distinguished between five degrees of elasticity – absolutely elastic, highly elastic, elastic, less elastic and inelastic. He laid down that the demand for luxuries was highly elastic, for comforts elastic and for necessities inelastic. Generally, elasticity of demand refers to price elasticity. Marshall was the first to define price elasticity of demand. Marshall gave three kinds of price elasticity – unity, greater than unity and less than unit elasticity. He also enumerated the factors governing elasticity of demand, viz. Marshall developed his theory of supply on the lines similar to his analysis of demand. Just as the consumers obtain utilities or satisfaction from the

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consumption of commodities, it also involves costs. Just as the marginal utility diminishes as a consumer increased his consumption of a commodity, the marginal cost rises as the production of a commodity expands. A rational producer aims at minimising costs. The same equimarginal principle guides the producer in the matters of resource allocation. Marshall distinguished between real and money cost of production. Real cost of production refers to the efforts and sacrifices involved in making a commodity. Real costs include the exertion of labour and waiting for saving. Money cost of production indicates the sum of money that have to be paid for these efforts and sacrifices. Marshall divided costs into prime and supplementary costs. Prime cost are variable costs and include wages and raw materials. Supplementary costs are fixed costs and include depreciation, interest on loans, rent and salaries of executives. In the short run, a firm has to cover its prime costs. But in the long run, a firm must cover both prime and supplementary costs. According to Marshall, land and labour are the two chief factors of production. Capital is the secondary agent of production. Organisation is just a sort of labour. As a result, land and labour are the primary factors of production. Man being active, is the central force behind all activities relating to production and consumption, but nature plays a significant role as he is moulded by his surroundings and environment. Marshall agreed with Malthus on the subject of population. Out of the three propositions, he held the first to be valid and second and third as invalid due to the changes that has taken place after the death of Malthus. According to Marshall, population of a country increases either by natural cause or by immigration. Marriages were affected by climatic conditions and lack of means to support a family. He said that large families of healthy and physically fit children are an asset to the country and therefore, it is not true to say that an increase in population is detrimental to the economic prosperity of a nation. He believed that the state gained much from large families of healthy children. Marshall held that increased demand for commodities and expansion of the market led to division of labour. Division of labour and improvement of machinery went together. Machinery provides several advantages viz. In order to achieve maximum economy in production, each person should be constantly employed so that the skill and ability may be used in a best possible way. In short, Marshall recognised the importance and the advantages of division of labour. Marshall defined the Law of Diminishing Returns as follows: In an advanced country twice the amount of labour and capital applied to land would double the yield. Marshall believed that agriculture was subject to the law of diminishing returns in the long run and the manufacturing industry was subject to the law of increasing returns. Marshall stated the Law of Increasing Returns thus. Marshall defined the Law of Constant Returns in the following way. From his Laws of Returns, Marshall arrived at certain policy conclusions. He pointed out that an increasing returns industry would produce more cheaply. But he felt that the difficulty was that it would become a tool of power politics and it might not be put to proper use. Internal and External Economies: Economies of scale are of two types—internal and external. Internal economies are those which are dependent on the resources of the individual houses of business engaged in it, on their organisation and the efficiency of their management. Internal economies arise within a firm when its production increases. External economies are external to a firm and accrue to it when the size of the industry expands. These economies are important to understand the nature of long-run supply curve of an industry. Larger firms secure credit on easier terms. Owing to these internal economies, the long-run average costs fall as output rises. But, after a certain level of output, average costs must rise due to growing managerial inefficiencies and marketing difficulties. Thus, internal economies and diseconomies explain why the long-run average cost curve is U-shaped.

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