

Schumpeter's Theory

Schumpeter's idea about economic development first appeared in the book "Theory of Economic Development" published in 1911 in German and its English edition appeared in 1934.

- = Schumpeter focused on three economic processes:
1. Circular flow
 2. Innovation
 3. crisis. (Business cycle)

Circular flow

It implies a condition where economic activity produces itself continuously at constant rate through time.

- = It is like circulation of blood in an animal organism.
- = The circular flow is a stream that is fed from the continually flowing springs of labour power and land and flow in every economic period into the reservoir which we call income.



- a. All economic activities are repetitive
- b. Producers know the demand for goods and adjust supply.
- c. Economic system has optimum level of output and no wastage of resources.
- d. The firms working in competitive equilibrium.



Innovation

A change in the existing production system introduced by the entrepreneur with a view to make profits and reduce costs.

≥ Economic development implies changes within the economic system. When the changes take place in the economy, the circular flow is ~~disturbed~~ disturbed and the development process starts.

The following cases are included in innovation.

1. Introduction of new goods.
2. New methods of production.
3. Opening of new market
4. Discovery of new sources of raw material.
5. Setting up of a new type of industrial organisation.

Role of Entrepreneur

Entrepreneur is to ^{function} appreciate the following

1. Appreciate the possibility of innovation
2. Introduction of new thing
3. Directs the means of production into new channels.
4. Persuade the banker to finance for innovations.
5. Induce other producer to take risk.
6. Technological knowledge must prevail and extract.

Crises or Business cycle

From Boom to Depression - cycle of business.

Bank → Raise the level of investment → prosperity
Depression ←

The decay ~~disintegration~~ of Capitalism.

The continuous technical progress results in an unbounded increase in total and per capita output.

= Capitalism is essentially an evolutionary process.

Innovations will become a routine process.

= Profit would tend to decline — decay of capitalism.

Criticism.

1. Role of innovator over-emphasised.
2. Role of real savings ignored
3. Capitalist development process not convincing.