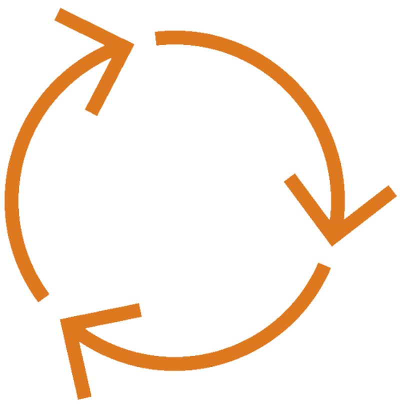
ECOHOLICS

Schumpeter's Theory of Economic Development

1.Circular Flow

- Economy is in stationary state. Continuous activity and no destruction.
- Innovation brings changes in the system which forever alters & displaces the equilibrium state previously existing.



2.Role of Entrepreneur

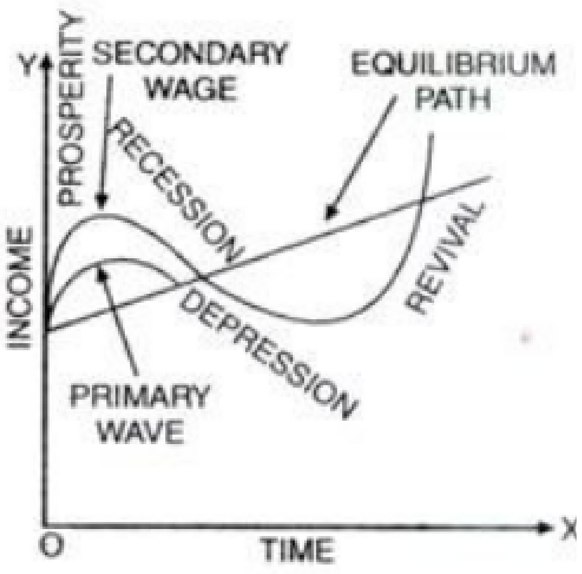
- Initiates development in society by introducing something new and earns profit. Profits are surplus over costs & continue to exist till innovation becomes general.

Breaking the circular flow

- Society progresses through trade cycle.
- Innovation is followed by other entrepreneurs in a swarm like cluster.

3.Business cycle or cyclical process

- Creation of bank credit-accelerate money income and prices in the economy-Expansion.
- Entrance of new entrepreneurs in production-Boom (upswings).
- Gradually, investment declines & unemployment starts, leads to fall in Aggregate demand.
- Profits decline, uncertainty & risk increases-Depression(downswings).
- Business cycle continues to fall below equilibrium level.
- n the end economic activities leads to revival of the economy.



4-The decay of Capitalism

- Continuous technical progress results in an unbound increase in total and per capita output & rate of profit is positive.
- Capitalism can maintain itself only so entrepreneurs behave like knights.
- Consequently it disintegrates and yields place to socialism.
- Capitalism is destroyed by Royal Power. Capitalism makes industrialists & merchants economically powerful and begin to dominate in political field.