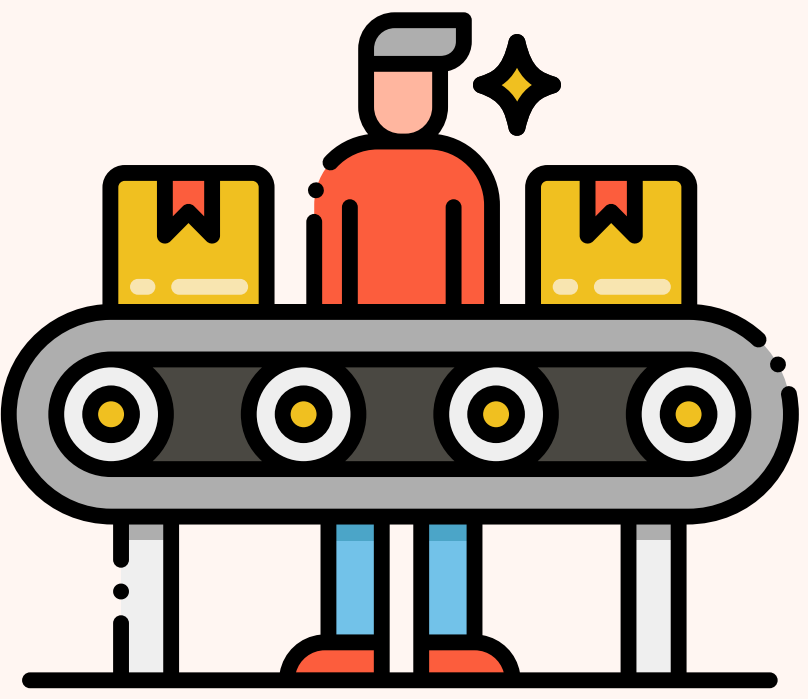




Schumpeter's Theory of Economic Development

According to Schumpeter innovation gears economic development.

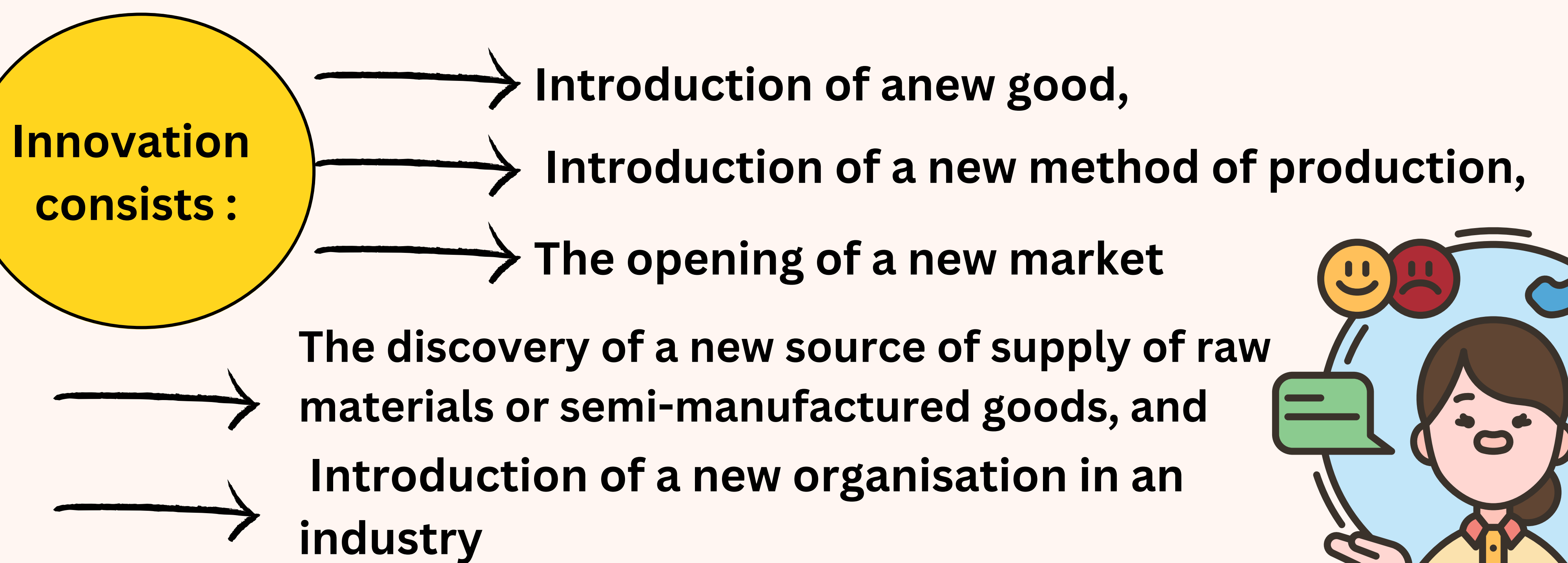


Production Function

$$Q = f [k, r, l, u, v]$$

Q is the output, k is the capital, r is the resources, l is the labour, u is the technology, and v is the social organization.

- Land is constant.
- Labor (Population Growth is exogenous).
- Increase in producer goods -> results positive net savings-> attributed to profit -> but profit can be achieved only if new technology (innovation) is employed.



The agent which bring about innovation is called entrepreneur. It needs both rate of profits and favourable social climate.

