

# Economic Evolution and Prices

by  
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- ‘The changes in the economic process brought about by innovation, together with their effects, and the response to them by the economic system, we shall designate by the term Economic Evolution.’  
(Schumpeter, *Business Cycles*, p.86)

# Introduction

- Dual information role for prices
- Orderly markets and normal price
- Disruptive innovations and price cycles
- Creative destruction
- Challenges ahead

# Dual information role for prices

- Prices inform allocation of scarce resources
- Prices inform innovators and their financiers

# Orderly markets and normal prices

- Order versus equilibrium
- Normal price versus long-run equilibrium price

# Disruptive innovation and Price Cycles

- Cluster of innovations drives up input prices and output prices in non-innovating industries
- Prices of products with innovation start high and decline over time
- Aggregate price index rises, then falls (with substantial heterogeneity across products)

# Creative destruction

- Differential firm growth from profit differences
- Productivity gains through changing market shares
- Obsolescence and “social” limits to innovation

# Challenges ahead

- Theory

- Theory linking price reliability and innovation
- Theory of price adjustment

- Practice

- Measures of innovation impact
  - Firm heterogeneity
  - Heterogeneity in product price movements
    - Relative price of manufactures and raw materials
- Dating of innovation cycles



THANK YOU

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