

Entrepreneurship

Lecture # 2



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TOPIC 2.

Introduction to the theory of entrepreneurship

PLAN

- ✘ **1. ETYMOLOGY AND HISTORICAL USAGE**
- ✘ **2. THE THEORIES OF ENTREPRENEURSHIP**
- ✘ **3. PROBLEMS WITH GROWTH OF ENTREPRENEURSHIP**
- ✘ **4. PROS AND CONS OF BEING ENTREPRENEUR**

WHAT IS ECONOMICS?

- ✘ Economics comes from the ancient Greek word “oikonomikos” or “oikonomia.” Oikonomikos literally translates to “the task of managing a household.” French mercantilists used “economie politique” or political economy as a term for matters related to public administration.

Adam Smith's Definition of Economics

Adam Smith was a Scottish philosopher, widely considered as the first modern economist. Smith defined economics as “an inquiry into the nature and causes of the wealth of nations.”

Criticism of Smith's Definition

1. The wealth-centric definition of economics limited its scope as a subject and was seen as narrow and inaccurate. Smith's definition forced the subject to ignore all non-wealth aspects of human existence.
2. The Smithian definition over-emphasized the material aspects of well-being and ignored the non-material aspects. It was assumed that human beings acted as rational economic agents who mindlessly strived to maximize their own well-being.
3. The Smithian definition prevents the subject from exploring the concept of resource scarcity. The allocation and use of scarce resources are seen as a central topic of analysis in modern economics.

Alfred Marshall's Definition of Economics

British economist Alfred Marshall defined economics as the study of man in the ordinary business of life. Marshall argued that the subject was both the study of wealth and the study of mankind. He believed it was not a natural science such as physics or chemistry, but rather a social science.

Criticism of Marshall's Definition

1. The Marshallian definition, like the Smithian definition, ignored the problem of scarce resources, which possess unlimited potential uses.
2. Marshall's definition restricted economics as a subject to only analyze the material aspects of human welfare. Non-material aspects of welfare were ignored. Critics of the Marshallian definition asserted that it was difficult to separate material and non-material aspects of welfare.
3. The Marshallian definition does not provide a clear link between the acquisition of wealth and welfare. Marshall's critics claimed that it left the subject in a state of perpetual confusion. For instance, there are plenty of activities that might generate wealth but that can reduce human welfare.

Lionel Robbin's Definition of Economics

Lionel Robbin, another British economist, defined economics as the subject that studies the allocation of scarce resources with countless possible uses. In his 1932 text, "An Essay on the Nature and Significance of Economic Science," Robbins said the following about the subject: "Economics is the science which studies human behaviour as a relationship between ends and scarce means which have alternative uses."

Criticism of Robbin's Definition

1. Robbin's definition of economics transformed the subject from a normative social science into a positive science with an undue emphasis on individual choice. His definition prevented the subject from analyzing topics such as social choice and social interaction theory, which are important topics within modern microeconomic theory.
2. Robbin's definition prevented it from analyzing macroeconomic concepts such as national income and aggregate supply and demand. Instead, economics was merely used to analyze the action of individuals, using stylized mathematical models.

Modern Definition of Economics

The modern definition, attributed to the 20th-century economist, Paul Samuelson, builds upon the definitions of the past and defines the subject as a social science. According to Samuelson, “Economics is the study of how people and society choose, with or without the use of money, to employ scarce productive resources which could have alternative uses, to produce various commodities over time and distribute them for consumption now and in the future among various persons and groups of society.”

The 51 Key Concepts

The **National Council on Economic Education** (NCEE) has compiled a list of the **51 key economics concepts**

Fundamental Economics |

Macroeconomics |

Microeconomics |

International Economics |

Personal Finance Economics

The 51 Key Concepts

Fundamental Economics

1. Decision Making and Cost-Benefit Analysis

2. Division of Labor and Specialization

3. Economic Institutions

4. Economic Systems

5. Incentives

6. Money

7. Opportunity Cost

8. Productive Resources

9. Productivity

10. Property Rights

11. Scarcity

12. Technology

13. Trade, Exchange and Interdependence

The 51 Key Concepts

Macroeconomics

14. Aggregate Demand

15. Aggregate Supply

16. Budget Deficits and Public Debt

17. Business Cycles

18. Economic Growth

19. Employment and Unemployment

20. Fiscal Policy

21. GDP

22. Inflation

23. Monetary Policy and the Federal Reserve

24. Real vs. Nominal

The 51 Key Concepts

Microeconomics

25. Competition and Market Structures

26. Consumers

27. Demand

28. Elasticity of Demand

29. Entrepreneurs

30. Government Failures/Public-Choice Analysis

31. Income Distribution

32. Market Failures

33. Markets and Prices

34. Price Ceilings and Floors

35. Producers

36. Profit

37. Roles of Government

38. Supply

The 51 Key Concepts

International Economics

39. Balance of Trade and Balance of Payments

40. Barriers to Trade

41. Benefits of Trade/Comparative Advantage

42. Economic Development

43. Foreign Currency Markets/Exchange Rates

The 51 Key Concepts

Personal Finance Economics

44. Compound Interest

45. Credit

46. Financial Markets

47. Human Capital

48. Insurance

49. Money Management/Budgeting

50. Risk and Return

51. Saving and Investing

ETYMOLOGY AND HISTORICAL USAGE

The classical and neo-classical theorists have labored in trying to define entrepreneurship.

The term “Entrepreneur” first used in 1723 and was loanword from French.

RICHARD CANTILLON (1680-1734)

Entrepreneur as risk-bearer



Richard Cantillon
(1725)



Richard Cantillon

Richard Cantillon (1680s – May 1734) was an Irish economist and author of *Essai Sur La Nature Du Commerce En Général* (*Essay on the Nature of Trade in General*), a book considered by William Stanley Jevons to be the "cradle of political economy". Although little information exists on Cantillon's life, it is known that he became a successful banker and merchant at an early age. His success was largely derived from the political and business connections he was able to acquire through his family and through an early employer, James Brydges. During the late 1710s and early 1720s, Cantillon speculated in, and later helped fund, John Law's Mississippi Company, from which he acquired great wealth. His success, however, came at a cost to his debtors, who pursued him with lawsuits, criminal charges, and even murder plots until his death in 1734.

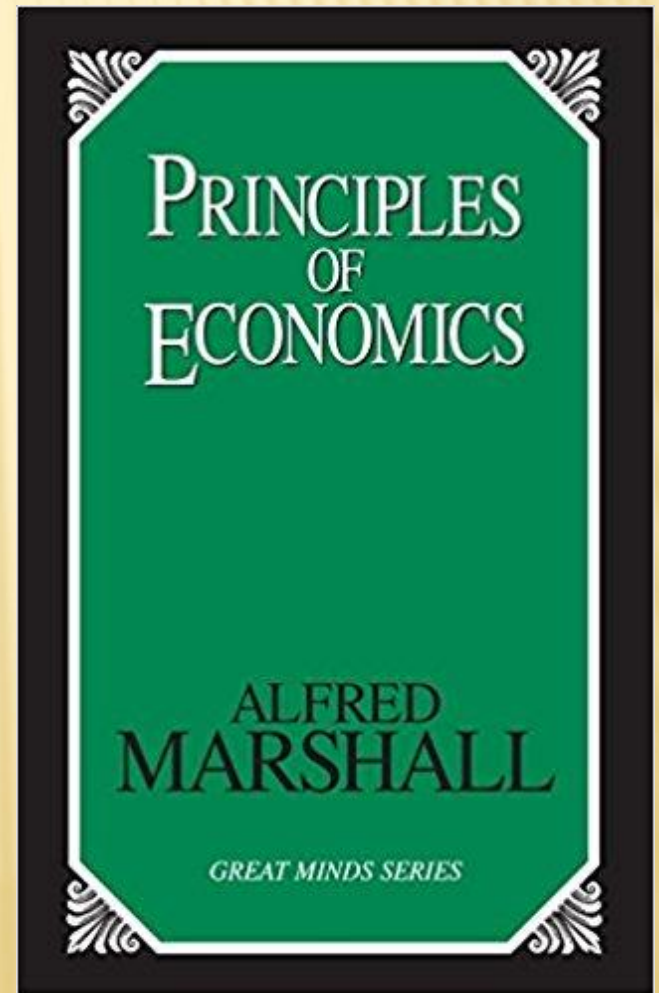
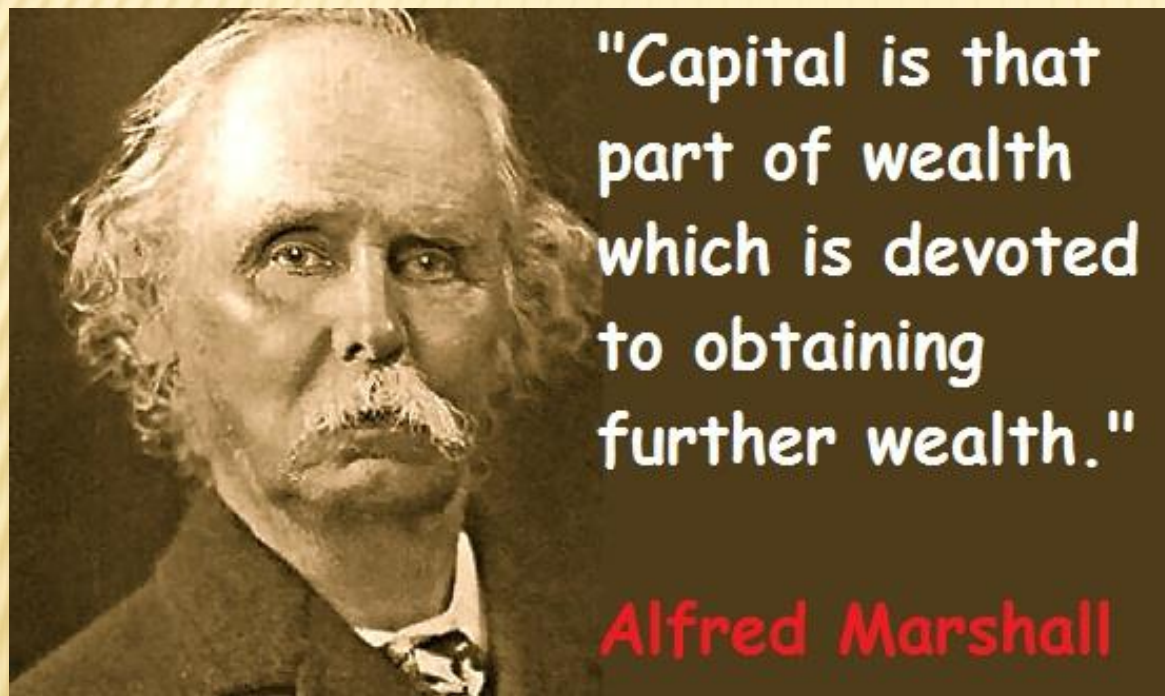
JEAN BAPTISTE SAY (1767-1832)



The command of a large sum is a dangerous temptation to a national administration. Though accumulated at their expense, the people rarely, if ever profit by it: yet in point of fact, all value, and consequently, all wealth, originates with the people.

(Jean-Baptiste Say)

ALFRED MARSHALL (1842–1924)



JOSEPH SCHUMPETER (1883 – 1950)



Innovation is the market
introduction of a technical or
organisational novelty, not just its
invention.

— *Joseph A. Schumpeter* —

AZ QUOTES

JOSEPH SCHUMPETER'S CONTRIBUTION TO ENTREPRENEURSHIP:-

JOSEPH SCHUMPETER was the person who gave a well-rounded picture of an entrepreneur. He disclosed the various aspects of entrepreneurship and produced the competent history of entrepreneurship in economic theory. In his book **The Theory of Economic Development** he said that art, political, innovative activities are on one side & repetitive and mechanical activities are on other side. He developed theories of interest, profit, credit & business cycle. He said that entrepreneur doesn't have to be a single person but can be an organization. He stressed more on technological innovations rather than on organizational innovations.

TECHNOLOGY REVOLUTION



U.S. Innovation Master Theorist: Joseph Schumpeter

Tech innovation intrinsic to capitalist dynamic: AND

1. Innovation comes from the individual entrepreneur, not labor, government, or social relations.
2. Social relations are anti-innovative, so innovation must disrupt/destroy companies, industries, communities.
3. Governance--expressed as bureaucracy, democracy, unions, faculty senates, etc—is also anti-innovative.
4. Innovation's risk justifies unlimited capital accumulation and monopoly.
5. Innovation always means replacing human labor with technology.

THE THEORIES OF ENTREPRENEURSHIP:--

1. ECONOMIC THEORY:-

Many economists give their views about entrepreneurship but Richard Cantillon was the first person who recognised the role of entrepreneurship. He said that a farmer is an entrepreneur who promises to pay a landlord for his land without any assurance of profits he can derive from his enterprise i.e. land. He said that there is always a risk factor of fluctuation of prices in the market for an entrepreneur.

With this Schumpeter added the concept of innovation. He said that an entrepreneur can be helpful in economic development by introducing new innovative ideas. Lack of innovation can reduce the enthusiasm, physical and mental energy of an entrepreneur.

2.SOCIOLOGICAL THEORY:-

Sociologists suggests that entrepreneurship can be social movement. Economists of this theory believes that cultural values deeply affect the entrepreneurship and economic development. If strong family support is with entrepreneur than this will be fruitful but if family does not care about businessman that can cause adverse affect. According to Hoselitz the persons who introduces innovative ideas reject the traditional ways of doing the things.

Economists believes that special attention given to society can improve the relations between the enterprise and its surroundings.

3. PSYCHOLOGICAL THEORY:-

Economists of this theory said that entrepreneurship is most likely to emerge when a society has sufficient psychological characteristics.

Joseph Schumpeter states that entrepreneur is motivated & driven by 3 things:-

- (a) 'The dream and the will to found a private kingdom' that means the desire for power & independence.
- (b) 'The will to conquer' that means the will to succeed.
- (c) 'The joy of creating' that means satisfaction of getting things done.

He asserts that matter is behaviour not the actor.

4. ANTHROPOLOGICAL THEORY:-

FREDRIK BERTH develop this theory. According to berth entrepreneurship has two connecting spheres in the society between which there exists a difference in values. These spheres are as follows:-

- Something which is cheap and
- Something which is expensive.

Barth states that entrepreneurial behaviour means to connect 2 different spheres in the society, between there is a huge discrepancy in the value.

5. BIOLOGICAL THEORY:-

According to Eagly (1995) several of the academic theories of gender differences offer explanations based on deeply seated cultural or even biological differences between men and women. The practitioner literatures are also particularly likely to emphasize gender differences, construing them as core aspects of what it means to be a man or a woman in the entrepreneurial process.

5. BIOLOGICAL THEORY:-

Psychologists have documented moderate and consistent levels of differences between men and women in risk-taking behaviors. An analysis of 150 studies examining such differences found some evidence of a temporal trend toward smaller differences, but still found that men were significantly more likely than women to engage in 14 of 16 types of risky activities. Their results showed that “males took more risks even when it was clear that it was a bad idea to take a risk,” and that females “seemed to be disinclined to take risks even in fairly risky situations or when it was a good idea,” leading to the speculation that “men and boys would tend to encounter failure or other negative consequences more often than women and girls” and that “women and girls would tend to experience success less often than they should”

PROBLEMS IN
GROWTH OF
ENTREPRENEURSHIP.

Following are the factors which are responsible for the slow growth of entrepreneurship:-

- non-availability of raw material and power
- Shortage of finance
- Problem of getting the loan sanctioned
- Incompetence and poor management.
- Restrictions Imposed by custom and tradition.
- Involvement of high risk.
- Socio-cultural rigidities.
- Lack of motivation.

- Lack of communication network.
- Absence of entrepreneurial aptitude.
- Low status of businessmen
- Instability in market
- Legal formalities involved to set up a unit.
- Low quality products.
- Low package of salaries to employees.

With all this there are few **social factors** like:--

- Lack of education,
- Dual role of women,
- Lack of independence,
- Family burden,
- Lack of cooperation from family members.

PROS AND CONS OF
BEING AN
ENTREPRENEUR:-

IMPORTANCE OF ENTREPRENEUR

An entrepreneur is a person who combines various factors of productions and provides finished products and by selling the products he generates his profits. An entrepreneur can be helpful in economic growth, following are the points in this regard:-

- Generation of employment.
- Increasing per capital income.
- Helping in capital formation.
- Balanced regional development.
- Promoting self reliance.

CONS OF ENTREPRENEURSHIP:-

Following are the factors which are responsible for the failure of entrepreneurship:-

- Lack of viable concept
- Lack of market knowledge
- Lack of technical skill
- Lack of seed capital
- Lack of business knowledge
- Lack of motivation
- Over confidence
- No guarantee of earning profits
- Legal constraints and regulations
- Create Monopoly.

INTRAPRENEURSHIP.

Employees of an organization who have entrepreneurial talent and motivated to use their abilities and initiative and do something on their own, but who may not want to start their own business are known as *Intrapreneurship*.

Intrapreneurship is the term given to the establishment and fostering of entrepreneurial activities in large organizations which either improve the existing products and services or brand new products'

ESSENTIALS OF INTRAPRENEURSHIP.

There are 4 elements for the success of intrapreneurship, which are as follows:-

- The strategic and structural environment within the organisation should be right.
- Talents of the employees are recognised and their skills are trained, and should be rewarded time to time.
- Employees should be encouraged to collaborate and try to coordinate their activities with each other.
- Successful employees should be rewarded and should not be given tough punishment when they are wrong in their work.

CONCLUSION.

From all this I concluded that it is as old as civilisation. Entrepreneurship is a role played by or task performed by the entrepreneur. Entrepreneurship become important and caught strong waves during last 3 decades of the previous century.

JAMES SCHUMPETER'S contribution in this concept is very much wide. His versatile and multi-disciplinary approach could influence the history of economic thoughts.

Schumpeter distinguished between an **inventor** and **innovator** by saying that inventor is discovers new methods and materials whereas innovator utilizing inventions and make a new combinations and produces newer and better product. From all this he generates his profits.