

EQM Research Seminar

"Fear of Novelty and Underdevelopment Traps"

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Monday, November 21st, 2016 // 2 p.m. – 3.30 p.m.

Abstract:

Innovation does not simply mean invention. As a dictionary definition puts it, it is "the introduction of new things and ideas." Taking this into account, we develop a new innovation-based growth model that incorporates the following facts: (a) Innovation is a complex process in which invention and introduction interact with each other; (b) both invention and introduction are costly activities that require time and resource; (c) the society's receptivity to new inventions endogenously varies on an equilibrium path; and (d) societies often suffer from the consumer's "fear of novelty" resulting from the inherent traits of the human personality to resist new ideas. Using this model, with dynamic optimization of an infinitely lived consumer, we demonstrate that a society with the consumer having too strong or too little preference to newly invented goods may be caught in an underdevelopment trap, in which the equilibrium receptivity of the society, defined as a rate at which new inventions are introduced, converges to 0. As a result, although invention constantly takes place, it fails to achieve self-sustained innovation and growth on an equilibrium path. Only the society with moderate preference to newly invented goods can be receptive and achieve innovation and growth in the long run. Under some condition, we show that a growth path is not balanced but perpetually cyclical. Over the cycle, innovation and growth persist eternally but intermittently, which is consistent with both historical and contemporary facts.

- **Paris: Room H116** (40 passage de l'Arche, 92037 Paris La Défense)
- **Lille: Visio Room E033**, E-building (7 rue de Solférino, 59000 Lille)

