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The Investors' Risk aversion and the Long-term Economic Growth in a Schumpeterian Framework

The class of the Schumpeterian models of economic growth is becoming increasingly popular. After the introduction of some crucial extensions of the basic models by P. Aghion and P. Howitt (1992), (1998) many dimensions of the process of economic growth can now be described. The field in which we would like to conduct our reasoning is: defining and describing the relations between capital market and the process of long-term economic growth. We refer to the model by Aghion, Howitt and Mayer-Foulkes (2004) in which financial development in a particular economy (which depicts the level of creditor protection) becomes a necessary condition for the convergence of country's rate of growth.

In the paper we modified the initial model by Aghion, Howitt and Mayer-Foulkes (2004). We implemented some alternative dynamics into the basic framework. In the first part of our analysis we quantified the probability of default of an enterprise which is trying to introduce an innovation. We showed, how the level of risk in the economy (measured by the enterprises' probability of default) influences the process of gaining the financial capital by entrepreneurs and in what way it stimulates the process of economic growth. In another part of the paper we presented a modification in which we introduced heterogeneous agents on capital market. The buyers of corporate bonds are now characterized by different parameters describing their risk aversion. This fact causes that not all of the issues of corporate bonds will be placed, which means that some innovation projects will be canceled. In this model the role of financial authority is crucial, because it shapes the markets' expectations about the future soundness of entrepreneurs.

Considering the two extensions of the model by Aghion, Howitt and Mayer-Foulkes (2004), we answered three question. How the liquid of capital market contributes to the process of economic growth? Does the distribution of investors' risk aversion influences the pace of economic growth? What is the role of financial authorities in providing high performances of the real economy?