



Animal Spirits Through Creative Destruction

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AMERICAN ECONOMIC REVIEW

VOL. 93, NO. 3, JUNE 2003

(pp. 530-550)

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Article Information

Abstract

We show how a Schumpeterian process of creative destruction can induce rational, herd behavior by entrepreneurs across diverse sectors as if fueled by "animal spirits." Consequently, a multisector economy, in which productivity improvements are made by independent, profit-seeking entrepreneurs, exhibits regular booms, slowdowns, and downturns as part of the long-run growth process. Our cyclical equilibrium has higher average growth, but lower welfare than the corresponding acyclical one. We show how a negative relationship can emerge between volatility and growth across cycling economies, and assess the extent to which our model matches several features of actual business cycles.

Citation

Francois, Patrick, and Huw Lloyd-Ellis. 2003. "Animal Spirits Through Creative Destruction." *American Economic Review*, 93 (3): 530-550.

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JEL Classification

E32 Business Fluctuations; Cycles

O41 One, Two, and Multisector Growth Models

O30 Technological Change; Research and Development; Intellectual Property Rights: General

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