Innovation, Entrepreneurship and Financial Market Cycles

While hard data is difficult to find, the financial crisis appears to have had a substantial negative effect on investors' willingness to finance innovative entrepreneurship. This dearth of capital is particularly worrisome in light of the widely recognised need for innovative ventures—the so-called "green shoots"—to reignite economic growth after the world-wide recession. A growing body of evidence suggests a strong relationship between entrepreneurship, innovation, and economic growth. This document first reviews the evidence concerning the relationship between innovation and entrepreneurship. It then turns to understanding the consequences of market cycles for these activities. We look at the way that financial considerations impact the innovation investment decision, and innovation in entrepreneurial ventures specifically.

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