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Class 12 commerce Sub. BST. Date 11.01.2021

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ENTREPRENEURSHIP DEVELOPMENT

FUNCTIONS OF ENTREPRENEURS IN RELATION TO ECONOMIC DEVELOPMENT

You are aware that entrepreneurs “organise” the production process. In the absence this function, all other resources, namely land, labour and capital would remain idle. They may not be inventing/discovering the products, their role in commercial exploitation of the advancements in science and technology via organisation of the productive apparatus makes the other resources productive and useful. So much so that it is said that in the absence of entrepreneurial intervention, every plant would remain a weed and every mineral would remain a rock.

1. Contribution to GDP: Increase in the Gross Domestic Product or GDP is the most common definition of economic development. You are aware that income is generated in the process of production. So, entrepreneurs generate income via organisation of production be it agriculture, manufacturing or services. You are also aware that income generated is distributed among the factors of production where land gets rent, labour gets wages and salaries, capital gets interest and the residual income accrues to the entrepreneur inthe form of profits. As rent and interest accrue to those few who have land and capital respectively whereas larger masses are destined to earn their incomes via wage employment, the biggest contribution of the entrepreneurship lies in capital formation and generation of employment. This is what we turn our attention to.

2. Capital Formation: The entrepreneurial decision, in effect, is an investment decision that augments the productive capacity of the economy and hence results in capital formation. In fact, GDP and capital formation are related to each other via Capital Output Ratio (COR); more precisely Incremental Capital Output Ratio (ICOR) that measures the percentage increase in capital formation required obtaining a percentage increase in GDP. So, if a country desires to grow @ 10.0 % p.a. and its ICOR is 2.6, then it must ensure capital formation @ 26.0% p.a. Entrepreneurs, by investing their own savings and informally mobilising the savings of their friends and relatives contribute to the process of capital formation. These informal funding supplements the funds made available by the formal means of raising resources from banks, financial institutions and capital markets.

3. Generation of Employment: Every new business is a source of employment to people with different abilities, skills and qualifications. As such entrepreneurship becomes a source of livelihood to those who do neither have capital to earn interest on nor have the land to earn

rent . In fact, what they earn is not only a livelihood or means of sustenance but also a lifestyle for themselves and their families as well as personal job satisfaction. As such entrepreneurs touch the lives of many, directly as well as indirectly.

4. Generation of Business Opportunities for Others: Every new business creates opportunities for the suppliers of inputs (this is referred to as backward linkages) and the marketers of the output (what is referred to as forward linkages). As a pen manufacturer you would create opportunities for refill manufacturers as well as wholesalers and retailers of stationery products. These immediate linkages induce further linkages. For example greater opportunities for refill manufacturers would mean expansion of business for ink manufacturers. In general, there are greater opportunities for transporters, advertisers, and, so on. So, via a chain-reaction, entrepreneurship provides a spur to the level of economic activity.

5. Improvement in Economic Efficiency: You are aware that efficiency means to have greater output from the same input. Entrepreneurs improve economic efficiency by,

a. Improving processes, reducing wastes, increasing yield ,and,

b. Bringing about technical progress, that is, by altering labour-capital ratios. You are aware that if labour is provided with good implements (capital), its productivity increases.