
INNOVATION AND STOCK PRICES: A REVIEW OF SOME RECENT WORK

Mariana Mazzucato

Economics Department, Open University, United Kingdom

The paper reviews work which draws a link between the dynamics of innovation and the dynamics of stock prices. One of the key findings is the relationship between innovation intensity (e.g. radical innovation) and the volatility of firm level stock returns. By connecting the analysis of risk and uncertainty— often related in the finance literature to ‘animal spirits’ and other stochastic factors— to changes in real production conditions at the firm and industry level, the paper provides the foundation for a Schumpeterian analysis of time varying risk.

JEL Classification: G12, O30.

Keywords: Idiosyncratic Risk, Volatility, Technological Change, Industry Life Cycle