

In Hicks' theory of long-run equilibrium growth that is determined by rate of increase of autonomous investment over time and, therefore, long-run equilibrium growth of income is determined by the autonomous investment and the magnitudes of multiplier and accelerator. Hicks assumes that autonomous investment, depending as it is on technological progress, innovations and population growth, grows at a constant rate.

With further assumptions of stable multiplier and accelerator, equilibrium income will grow at the same rate as autonomous investment. It follows therefore that the failure of actual output to increase along the equilibrium growth path, sometimes to move above it and sometimes to move below it, determines the business cycles.

Hicks' theory of business cycles has been explained with the help of Fig. 13.7. In this figure, AA line represents autonomous investment. Autonomous investment is that investment which is not induced by changes in income and is made by entrepreneur as a result of technological progress or innovations or population growth. Hicks assumes that autonomous investment grows annually at a constant rate given by the slope of the line AA.

Given the marginal propensity to consume, the simple multiplier is determined. Then the magnitude of multiplier and autonomous investment together determine the equilibrium path of income shown by the line LL. Hicks

calls this the floor line as this sets the lower limits below which income (output) cannot fall because of a given rate of growth of autonomous investment and the given size of the multiplier. But induced investment has not yet been taken into account.

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