The world we are living in today is complex and dynamic. Innovation and entrepreneurship are therefore becoming more relevant in economic development. According to Schumpeter “carrying out innovations is the main function which is fundamental in entrepreneurship”. He also affirms that it is entrepreneurship that “replaces today’s Pareto optimum with tomorrow’s different new thing” (Braguinsky & Klepper, 2009).

Recent evidence of entrepreneurship's significant contribution to economic growth and development, challenges the dominance of general equilibrium theory in microeconomics. The assumptions of the neoclassical economic model which underlies general equilibrium theory has long time been criticised; yet its consideration in policy formulation has not been dismissed despite the fact that general equilibrium theory does not incorporate entrepreneurship.

The assumptions embedded in neoclassical economic theory exclude entrepreneurship as an economic variable. However, as microeconomic research finds more and more evidence confirming the importance of new business formation and growth, general equilibrium theory remains incapable of adapting to this reality. To this end general equilibrium theory produces policy prescriptions which favour mainly large, established firms over new, small firms. It is therefore no wonder that the small business sector continue to fail in South Africa.

This lecture presents the theory of the firm and also defines an entrepreneur within the context of the theory of the firm. In doing so, this lecture exposes the shortcomings of the general equilibrium theory which is used to explain entrepreneurship. Based on Schumpeter’s description of an entrepreneur, namely, a Disequilibrating factor of economic processes; this lecture demonstrates how entrepreneurship should be understood and developed within the broader scope of microeconomics discourse.