

Does Economy Drive Innovation or Innovation Drives Economy: Looking Through Consumer Choice Theory Lens?

Akim M Rahman*

Associate Professor (Economics) and Dean, Faculty of Business Dr. Momtaz Begum University of Science and Technology (MUST) Bhairab, Kishoreganj, Bangladesh

*Corresponding author:

Akim M Rahman, Ph.D. (OSU, USA), Associate Professor (Economics) and Dean, Faculty of Business Dr. Momtaz Begum University of Science and Technology (MUST) Bhairab, Kishoreganj, Bangladesh.

ABSTRACT

In today's Tech-driven world, the relationship between innovation and economy has become significant gradually no matter what economy or society we talk about in a country. This study advances with relevant analysis for answering the question whether economy drives innovation or innovation drives economy in today's human society country-wise. This study advances by examining the influence of emerging technologies, globalization, and then shifting geopolitical scenarios on innovation and economic progress. The relationship between the economy and innovation is bidirectional and self-reinforcing. From the perspective of Consumer Choice Theory, these forces act in a dynamic loop: the economy defines consumer constraints and demand, which drives innovation, while innovation reshapes consumer preferences and expands economic growth. About Voluntary Insurance (VI) in bank-led digital banking services, Consumer choice theory under Akim's Model evaluates how risk-averse individuals make security & financial decisions by balancing personal defense efforts against perceived cyber and transactional risks. It models total utility as a combined function of personal awareness, self-protection investments, and legal or institutional safety nets where Voluntary Insurance (VI) can be a new product in economy, if the VI policy were in practice in economy. It could have ensured absolute risk-free bank-led digital services and its progression could have ensured cashless society sooner than delaying. So, innovation can drive economy country-wise, if VI were in place.

Keywords: Innovation, Economy, Voluntary Insurance (VI) as an Innovative Product, Bank-led Digital-banking Services.

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Introduction

It is well recognized that today's world has witnessed rapid technological advancements where people's lifestyles are directly or indirectly connected to each other. It has shifted global dynamics and evolved consumer demands for new products in markets. It is commonly referred to as "new era of innovation and economy". It is also called the "new age of economic progress", which signifies a profound shift in the ways society's function and thrive.

As for example, today people are talking about not just digital banking services but digital money in the future where besides having

ATM Card or Debit Card etc. the customer will need to have just personal information relates to individual's bank acct and password or fingerprint etc. for the individual's verified identification. In this progressional journey, today's bank transaction can use smartphone cameras to scan black-and-white pixel patterns that instantly transfer payment details between a customer and a merchant. As for example, bank transaction QR code technology uses smartphone cameras to scan black-and-white pixel patterns that instantly transfer payment details between a customer and a merchant.

In these practices, a merchant, i.e., seller and a customer, i.e., buyer uses QR where seller

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generates a code containing transaction details (amount, merchant ID). The customer scans and authorizes the payment in their app. On the same token, the buyer generates a code from their payment app. The merchant scans it to request funds.

But all these developments face severe drawbacks, being its insecurity where psychological risk factors in multi-faucets dominate a customer's or a probable customer's decision not to use it. Focusing on the issues underpinning Akim's Model, Voluntary Insurance (VI), can be introduced as a low-cost or fixed-price new product [1]. It can enhance consumer surplus, bank profits, and overall transaction volume. When VI-product is on market, it will spread from bankers to banking-customers.

Underpinning the discussion above, it is claimed that innovation drives economic growth by boosting productivity, creating new product markets, and replacing old methods. And in the progression, a strong economy provides the funding and stability needed to fuel innovative ideas such as Voluntary Insurance (VI) in bank-led digital banking services. Here VI as a new product in banking system is needed to be introduced by the Central Bank in economy country-wise such as Bangladesh.

All these ongoing progressions and the prospects of having new a product such as VI, raise question: Does the economy drive innovation or innovation drive economy?

Answering the question posed, this study advances theoretically to cross-examine whether innovation derives, or economy drives innovation in economy country-wise such as Bangladesh.

Akim's Model: Voluntary Insurance (VI) as an Innovative Product in e-banking Services

Akim's Model (Voluntary Insurance-VI), proposed by Akim Rahman, is a bank-led digital banking framework designed to eliminate transaction risks (e.g., fraud, phishing etc.) by introducing a paid, optional insurance product for users [1,2]. It aims to boost users' confidence in bank-led digital banking services by providing a "win-win" solution for consumers, banks, and the economy where VI will be an innovation, if the proposed VI policy goes in effect.

By doing so, with no risk, customers should be able to transfer money from their bank accounts to mobile financial service (MFS) systems such bKash, Nagad and Rocket etc. without going to relevant agents. Besides this, customers should be able to do all kinds of transactions through bank-led digital banking accounts without facing any risks. Since today most companies, organizations and government agencies, etc. pay an employee salary through employee's account, it will facilitate bank-led digital banking users getting it done without visiting bank branches.

Since bank-led digital transactions are not covered under DIS policy (IADI, 2016) in banking services sector in economy country-wise, having VI in place can facilitate jointly working with the DIS for ensuring absolute risk-free digital banking services. In today's banking system, the users of these services

receive text messages if there are no failures of digital connections or net service failures etc.

Accordingly, these services are no complaint free in economy of Bangladesh. Besides this, the major MFS providers namely bKash, Nagad and Rocket etc. are no complaint-free too in Bangladesh economy.

Prospects of having VI as an innovative product in bank-led digital banking services

Once policymakers and bank-management in Bangladesh acknowledge the importance of the VI policy, they may introduce digital banking-provisions or a supplementary provision under Bangladesh DIS. So that the relevant authority authorizes VI product in digital banking service-market of Bangladesh.

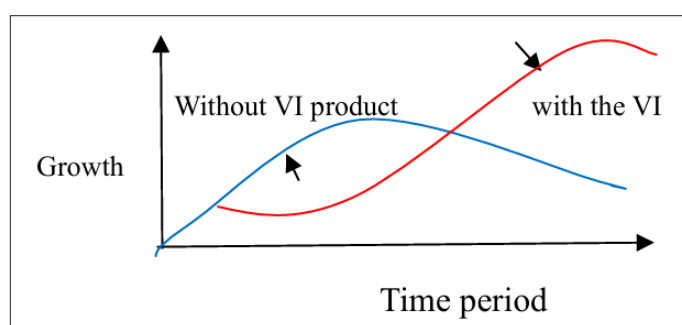


Figure 1: Effects of having VI as an innovative product e-banking service-market in Bangladesh.

Once policy is in place, it will spread from bankers to customers. This progression (for example, customers are now buying the VI to be on save-side) of the VI product life cycle can be interpreted using "S-curve" as shown in Figure 1. This S-curve of the VI product in Bangladesh economy will chart the revenue growth-trends against time. In this journey at the early stage, as the new product sets itself up, the revenue-growth trend will be slow. Sometime in the process, based on better understanding, the customers will begin to demand the VI product. In this market, any rebate policy or provision can be further instrumental. As a result, the usage of the VI will increase faster as time passes by. These changes to the demand for the VI will allow the growth trend to continue and will make the e-banking services more appealing. The growth trend will slow down near the end-of-life cycle. As time passes, this progression will present a Cashless society or people of Bangladesh. It can place Bangladesh economy to be an example to other countries for following Bangladesh's footsteps.

In this progression, the S-curve will fully replace the traditional banking system, which will continue influencing growth trend upward. Here the innovative VI as a product will have multi-faucets "product life cycle" in Bangladesh economy. They are a) the starting-up phase b) the rapidly increasing revenue in e-banking service market and c) the declining trends eventually. However, it will not get off from the bottom. It will contribute significantly by presenting a secure system of bank-led e-banking services. Thus, it is now vital attracting today's probable customers of e-banking services in Bangladesh.

The first curve, i.e., the curve stands for without VI, in Figure-1 represents a growth-trend of the mixture of traditional & digital banking services in Bangladesh economy. The other curve, i.e., the curve stands for with the VI product, represents the presence of the VI product in service-market. It begins with slow growth trends. But eventually it will overtake and lead to even at a higher level. In the long-run, this progression in Bangladesh economy will be an example to other economy country-wise. Based on successful outcome, the other economy country-wise may follow Bangladesh's footstep when necessary to efforts for ensuring riskless e-banking services. Eventually the economy country-wise may present a cashless society where the initiative efforts of Bangladesh will be a part of history.

How the Economy Drives Innovation (Demand-Pull)

Consumer Choice Theory posits that individuals allocate scarce resources (income) to maximize satisfaction (utility) based on prevailing prices and preferences [3]. The economy shapes this process in several ways:

Budget Constraints: When the economy slows or inflation squeezes into purchasing power, consumers limit spending. This scarcity forces firms to innovate to lower production costs, creating more affordable and efficient goods that fit revised budgets.

Income Shocks: As real incomes rise, consumer preferences shift toward higher-quality or more specialized goods. Innovators and entrepreneurs are motivated to enter the market or adapt products to capture this new consumer surplus.

Price Signals: If the broader economy makes certain inputs expensive (e.g., high energy costs), consumer demand for alternatives spikes. This prompts firms to innovate in cheaper technologies (like renewable energy) to satisfy market demands while restoring profit margins

How Innovation Drives the Economy (Supply-Push)

Conversely, innovation actively disrupts and expands the economy by altering the fundamental terms of consumer choice [3]:

New Indifference Curves: Breakthrough innovations (e.g., the smartphone, electric vehicles) do not just meet existing needs; they create new markets. They shift the consumer's indifference curve outward, offering entirely new bundles of goods that provide higher levels of utility.

Changing Relative Prices: Innovation drastically reduces the cost of once-expensive goods (e.g., computers, solar panels). This triggers the substitution effect, where consumers shift their spending away from outdated technologies toward the newly innovated, cheaper products.

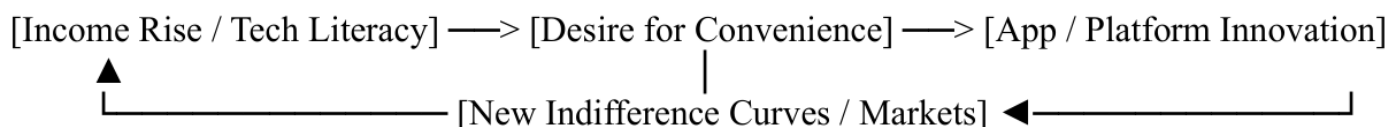
Economic Growth (GDP): By increasing productivity and creating new industries, innovation expands the overall economic pie, generating new jobs and raising the general standard of living, which gives consumers more income to spend.

The Feedback Loop

Ultimately, the economy determines what can be afforded, translating scarcity into "demand-pull" innovation. That innovation then redefines how we live, lowering costs and creating new desires to create "supply-push" economic growth. Together, they form an interdependent cycle that fuels long-term market evolution [4].

Here is how the Consumer Choice Theory framework applies to the proposed VI as an innovative product in today's digital banking services for ensured absolute risk-free digital banking services in economy [5].

Digital Technology: Reshaping the Utility Function



Shift in Indifference Curves: Before smartphones or streaming platforms, consumers balanced budgets between physical media (CDs) and landline services. Innovation introduced entirely new product bundles. This shifted consumer indifference curves outward, allowing them to achieve much higher satisfaction (utility) from instant, on-demand digital access.

Network Externalities: In digital markets, an individual's utility increases as more people use digital banking services. This creates a powerful demand loop: economic adoption increases

the product's perceived value, forcing continuous software innovation to retain users.

How does Innovation Drive Economy?

Innovation drives the economy by drastically increasing productivity, creating entirely new industries, and boosting global market competitiveness. It functions as a cycle where modern technologies or methods render older models obsolete—a process known as creative destruction—resulting in a higher overall standard of living and long-term financial expansion.

Direct Impacts on Economic Structures

Economic Pillar	How Innovation Transforms It	Real-World Example
Labor Market	Replaces repetitive tasks to free workers for higher-value, creative decision-making roles.	The transition from physical assembly lines to automated software development and digital marketing roles.
Sustainability	Shifts production models from linear to circular systems, decoupling growth from environmental waste.	The massive expansion of the electric vehicle industry and scalable battery storage solutions
Entrepreneurship	Democratizes vital digital tools, empowering small startups to seamlessly compete with legacy conglomerates.	Small business owners managing global logistics and reaching international buyers using localized e-commerce platforms.

Key Pathways of Innovation-Driven Growth

Productivity Gains: Companies utilize automation, AI, and improved workflows to produce more high-quality goods at much lower costs.

New Market Creation: Radical breakthroughs construct fresh industries out of thin air, giving birth to brand-new consumer demands and career paths.

Industrial Structure Upgrading: Outdated industrial processes are replaced by advanced sectors like robotics, cloud computing, and green technology.

Global Competitiveness: Countries that pioneer innovative tech secure better footing in global trade networks and pull in massive foreign direct investments.

Conclusion

This study explored and analyzed the intricate connection between innovation and the economy within the context of the new world where bank-led digital banking services will be absolute risk-free services. By examining relevant literature and case studies of VI as an innovative product in digital banking services, this study investigated how innovation drives economic growth, enhanced competitiveness, and shaped socio-economic dynamics. Furthermore, it examined the influence of emerging technologies, globalization, and shifting geopolitical scenarios on innovation and economic progress. Through an interdisciplinary approach, this study contributed to a comprehensive understanding of the complex interplay between innovation and the economy in the new world order. The role of digital transformation in driving economic growth and innovation cannot be ignored. Businesses that effectively leverage digital technologies are more likely to experience growth and stay competitive in the market.

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