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## Digital Economy and Knowledge Economics: Implications on Economic Model

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## Abstract

The digitization of information has been one of the greatest stories of the last two decades. This article seeks to explain the meaning of this process and how it affects already established models concerning trade and knowledge economics. This article is based on the simple premise that knowledge is the most important resource, without which nothing can be done. The article starts by looking at the competitive advantage theory that was largely promoted by Michael Porter whose works have greatly influenced the first part of this article. The article then discusses the ever more important role of knowledge due to competitive advantage theory and the digitalization of information. Finally the implications and discrediting the comparative advantage theory, this theory has no place in modern economic thinking. As we have more tools in our disposal, we must investigate the importance of wave theory as well as the true meaning of competition. It also looks into the greater role collaboration will play in the future. The article briefly discusses the effects that the digitization of information will have over time.

## Article Preview

## Introduction

### Need for a New Model

The digitization of information indeed has been revolutionary in every sense of the word. There has been arguments of new economic models coming to the forefront, some saying there needs to be a new economic model. Indeed Robert Nolan, in one of his writings in his blogspot PEHUB, titled his article, written on

September 5 2008, as a result of the digital age. The digital age has affected economics, and will continue to do so. However economists must be careful when they attempt to create new models. Unless work has not been done in a field, a model will be a gradual change to show the new realities. Quoting Robert Nolan again, "the new economic model will be more evolutionary than revolutionary."

Understanding that the models which will come into the fore will be evolutionary, we must turn to an important paper written by Hal Varian back in 1997. Varian in this paper pointed out, "most of the time you were a student you probably studied various canonical models: things like consumer choice, and producer choice, general equilibrium, game theory and so on. The professor probably told you that these were very general models that could encompass lots of special cases. Well, it was all true. Over the last fifty years economists have come up with some very general principles and models. Most likely your model is a special case of one of these general models."

Therefore, one would not expect the digitization of information to bring about revolutionary changes in the modeling process. Instead, one should rather expect that there would be more clarification of truths already established and finally more shedding of theories that have no place in modern economic thought. Because the inconsistency of these theories with other theories have been established.

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