

Selling Patent Rights and The Incentive to Innovate

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Abstract

We studied the diffusion of a process innovation of which the outside innovator puts on an auction to sell his patent rights. The winning firm can then sell licenses to other firms in the same industry. We show that the private value of the patent and the incentive to innovate are increasing (decreasing) in the industry size if the demand is strictly convex (concave), and are independent of the industry size if the demand is linear.

Keywords: Patent licensing, Cournot oligopoly, process innovation, sale of patent rights, incentive to innovate.

JEL Classification: D45, L13, O32, O33

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