

Patent Competition with Licensing

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Abstract

We examine the effect of licensing in a patent competition between firms competing in a product market. For licensing with fixed fee auction, the licensor continues to produce when innovation is small and stops producing when innovation is large. It is socially optimal to allow licensing when innovation is large and to forbid licensing when innovation is small. In contrast, for licensing with royalty, the licensor always keeps producing regardless of the magnitude of the innovation and licensing leads to no change in social welfare.

Key Words: patent competition, licensing, technology transfer, fixed fee, royalty

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