

Imitation, Innovation, and Threshold Effects: A Game Theoretic

Approach

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Abstract:

The theoretical literature has identified the importance of conditioning factors regarding the relationship between Intellectual Property Rights (IPRs) and economic performance. However, it has not been established how these conditioning factors impact the decision making process of innovating firms. This paper presents a game theoretic framework, which shows how external conditions affect the decision of a firm to innovate. These conditioning factors can prevent firms from attempting to innovate. Under the circumstances that the economic conditions of an economy are poor, even a change in the level of IPRs does not provide sufficient incentive for innovation. Furthermore, the analysis shows that the level of competition constitutes a much stronger driving force behind innovation than the protection of intellectual property does.

Keywords: Threshold, Intellectual Property Rights, Economic Development, Game theory

JEL classification: C72, L1, O12, O32, O34

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