A New look at Competition Policy in an Economy with RD Externalities*

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Abstract

The paper studies the impact of defensive behaviour of the firms, strategic patents or lobbying activities to affect sector regulation, on output and productivity. I develop a general equilibrium model with technology adoption where within a variety of sector a finite number of firms, leaders and followers, strategically compete in the product market and in the innovation activities to improve their productivities, and potential entrepreneurs invest to create new varieties of sectors. Leaders' innovation generate knowledge spillovers towards the competitors that can be controlled by the implementation of defensive practices. On one hand, the defensive behaviour reduces the knowledge spillovers and the sectors with existing variety get more concentrated with a lower innovation intensity leading to a contraction of the aggregate productivity of the economy. On the other hand, it raises the incentive of the potential entrepreneurs to invest and to create new varieties of sectors that boosts the aggregate productivity through *new good externality*. The relative strength, and consequently the aggregate effect, hinges on how hard is to create new varieties of sectors. The model shows that when the creation of new varieties of sectors is relatively easy, the percentage mass of new varieties of sectors created in equilibrium is lower .

Keywords: key1, key2, key3

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