

Patent Term, Entry and Product Choice*

Talia Bar

University of Connecticut

Department of Economics

Oskar Liivak

Cornell University

Law School

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Abstract

We investigate the relationship between patent term, entry and the degree of product differentiation in a market with an incumbent patentee and a subsequent entrant. The entrant's product is non-infringing and patentable. Selling a differentiated product in the same market, the entrant benefits from the incumbent's patent protection, as it prevents free entry. The entrant's strategy thus depends on the remaining duration of the incumbent's patent. We show that the incumbent patentee's profit is not monotone in patent term because a longer patent term induces or expedites entry. Moreover, the entrant will choose a less differentiated product the closer time is to the incumbent's patent expiration. This results in a positive effect on incumbent's profit in the case of horizontal differentiation, but a negative effect in the case of vertical differentiation.

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*Talia Bar, University of Connecticut, 365 Fairfield Way, Oak Hall Room 335, Storrs, CT 06269-1063, talia.bar@Uconn.edu;. We are grateful to Vidya Atal, Haim Bar Ani Guerdjikova, Elisabetta Ottoz and seminar participants for insightful conversations and comments. We also thank Jungwoo Kim for his assistance.