

Gains from Patent Protection: Innovation, Market Power and Cost Savings in India

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Abstract

This paper uses the implementation of a TRIPS compliant patent regime in India to study the effect of stronger patent protection on innovation and market power. Exploiting cross-industry variation in the importance of patents, we find that the reform led to more patent applications and higher investment in research and development for firms more exposed to the reform. We also estimate an increase in average firm-product level markups which can be mainly attributed to lower marginal costs, not higher prices. Our results indicate that process innovations and output expansion have contributed to these cost savings.

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