



You are cordially invited to

## **UCLouvain Economics Seminar**

On **Wednesday October 25, 2017**, from **12:45 to 14:00**  
**CORE, B135 – Voie du Roman Pays, 34**

**Luis Cabral**  
(New York University)

Will give a presentation on

### **Standing on the Shoulders of Dwarfs: Dominant Firms and Innovation Incentives**

**Abstract:**

I develop a dynamic innovation model with three important features: (a) asymmetry between large and small firms ("giants" and "dwarfs"); (b) technology transfer by acquisition; and (c) the distinction between radical innovation (compete for the market) and incremental innovation (compete within the market). I provide conditions such that (a) greater asymmetry between giant and dwarfs decreases incremental innovation but increases radical innovation; and (b) allowing for technology transfer increases incremental innovation but decreases radical innovation. These results have several policy implications, including: (a) a soft antitrust policy toward dominant firms leads to an increase in radical innovation but a decrease in incremental innovation; (b) a merger policy that restricts the acquisition of fringe firms by dominant firms leads to lower incremental innovation rates and higher radical innovation rates; (c) the effect of IP protection on radical innovation is ambiguous: on the one hand, it increases the prize effect of innovation; on the other hand, it improves the working of markets for technology, which in turn reduces the rate of radical innovation.

*Information:*

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