

IMPORT COMPETITION, MULTI-PRODUCT FIRMS, AND BASIC INNOVATION

PUBLICATION FACTS

JOURNAL

JOURNAL OF INTERNATIONAL
ECONOMICS

PUBLICATION DATE

2013

VOLUME/ISSUE

91 (2)

PAGES

220-234

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ABSTRACT

How does firm strategy to produce basic innovation respond to international trade? Given the importance of basic innovation for economic growth and welfare, better understanding of this question is essential. In this vein we combine patent, firm, product, and trade data to show that when confronted with higher import penetration, the nature of firm innovation becomes less basic. We propose that underlying this result is the interplay between multi-product firms that narrow their product scope when exposed to greater import competition and the difficulty inventors face when capturing all benefits derived from their basic innovations. (C) 2013 Elsevier B.V. All rights reserved.

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