Innovation and Imitation
in a High Information Economy

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Abstract

We study the behavior of imitation and innovation in a dynamic general equilibrium model that captures the salient features of an information age. Imagine a world where innovations can be made but at a cost that reflects the type of goods. After innovation takes place, imitation is possible but again at some cost which reflects the nature of the good. We show that the behavior of innovation and imitation are very different for high information content goods and low information content goods and this has important implications for the structure and evolution of industry as well as optimal government protection of innovation. A key determinant of the degree of protection is the degree of returns-to-scale in the industry and the information content of goods plays a very important role in determining that. Using this model we address the optimal protection of ideas for high information and low information goods.

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