



## Competition, Contracts, and Innovation (Paperback)

By Federal Trade Commission

Createspace, United States, 2014. Paperback. Condition: New. Language: English . Brand New Book \*\*\*\*\* Print on Demand \*\*\*\*\*.This book contributes to the literature on the relationship between innovation and market power by considering how changes in the intensity of product market competition affect innovation when managerial compensation is a linear function of firm profits. Changes in the intensity of product market competition affect both the return from innovation and the cost of inducing managers to innovate. Several recent accounts call for both the returns-to-investment effect and the agency-cost effect in analyzing the effect of additional product market competition on incentives to innovate (see e.g., Schmidt (1997), Raith (2003), and Piccolo, D Amato, and Martina (2008)). This book differs from these accounts in the type of contract that we assume firms can use to induce innovation. With linear profit-sharing contracts, the cost of a non-drastic innovation declines as product market competition increases because the increment gained from innovation becomes a larger fraction of the total profit. The book argues that this decline in the cost of attaining innovation as competition increases means that competition will often lead to more innovation even in models where the returns to innovation otherwise would fall..



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