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# Vertical technology transfer and the welfare implications of patent protection<sup>\*</sup>

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**Abstract:** Significant amount of vertical technology transfer occurs between developed and developing country firms, and many trading companies from developing countries create competition in the developed countries, yet the literature on intellectual property rights did not pay much attention to these aspects. In a Cournot oligopoly with vertical technology transfer, we show that patent protection in the developing country raises developed-country welfare if the following three conditions hold together: (i) patent protection in the developing country deters entry in the final goods market, (ii) the marginal cost difference between the incumbent and the entrant final goods sellers is sufficiently small, and (iii) the marginal cost difference between the incumbent and the entrant developing-country producers is sufficiently high. We also show that patent protection in the developing country always creates higher developing-country welfare if no developing-country firm enters the final goods market. We also discuss the implications of Bertrand competition on our results.

**Keywords:** Entry; Patent; Vertical technology transfer; Welfare

**JEL Classification:** F12; F23; L13; O34

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