

Outsourcing Under Imperfect Protection of Intellectual Property

Amy Jocelyn Glass

Department of Economics
Texas A&M University
College Station, TX 77843-4228

(979) 845-8507
aglass@econmail.tamu.edu

This paper models outsourcing decisions when intellectual property rights are imperfectly protected. Firms in the advanced North develop higher quality levels of existing products and then decide whether to shift a basic stage of production to the South. Production in the South lowers costs but entails a risk of imitation by Southern firms. The larger this risk of imitation, the lower the rate of innovation, the lower the extent of outsourcing, and the higher the relative wage. The increased relative wage raises the cost savings from outsourcing, which offsets the reduction in the expected duration of profits due to imitation.

<http://econweb.tamu.edu/aglass/Outipr.pdf>