

The Effects of R&D Subsidies for Joint R&D in a Vertically Related Industry

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Abstract

This study investigates the effects of the R&D subsidies for joint R&D between a final-good firm and an intermediate-good firm in a vertically related industry. We consider three cases of how the intermediate-good firm sets its product price; (i) marginal cost pricing to the final-good firm in the home country, (ii) monopoly pricing with discriminatory intermediate-good prices, and (iii) monopoly pricing with a uniform intermediate-good price. We show that R&D subsidies set by the home government are positive in case (i), negative in case (ii), and positive or negative in case (iii). The sign in case (iii) is determined by the share of the consumer in the home country. In terms of the global welfare-maximizing problem, the R&D subsidies are positive in all cases.

Keywords: R&D; Vertically related market; R&D subsidies

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