

The Economic Effects of Compensatory Patent Length Adjustments*

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Abstract

What are the economic effects of strengthening intellectual property rights protection? I analyze this question in the context of the United States Patent and Trademark Office, where inventors can be compensated for administrative delays through a lengthening of the patent term. To determine the effects of this setting, I exploit the quasi-random assignment of patent applications to examiners as a source of variation in the patent term length. I show that on average a delay-induced prolongation of the patent term positively affects innovation value but has a negative impact on follow-on innovations. Although the positive effects on patent value are more pronounced for patents with a broader scope of protection and those that are not delayed in disclosure, the detrimental effect on follow-on innovations is stronger for broader patents and those that are delayed in disclosure. This implies that while the patent holder can benefit from stronger patent protection, a prolonged patent term can have a negative social impact.

Keywords: Patent term adjustment, Patent length, Patent examination, Innovation stock market value, Follow-on innovation, Administrative delay, United States Patent and Trademark Office

JEL classification: D23, D73, H83, K00, L30, O30, O31, O32, O34

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