



Seminarios de Macroeconomía y Finanzas

Knowledge Creation and Diffusion with Limited Appropriation

Expositor: Hugo Hopenhayn – University of California, Los Angeles.

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Sala de Conferencias, Agustinas 1180, piso 3

Inscripciones:

seminarios@bcentral.cl

Los Seminarios de Macroeconomía y Finanzas tienen como objetivo difundir investigación académica y aplicada de investigaciones del Banco y externos.

Abstract

Innovation is central to economic growth, but so is the diffusion of new knowledge. Such is the finding of recent papers that model the interaction between these two forces. Absent in this literature are two key elements that are the focus of this paper. First, we consider the role of frictions in matching innovators and imitators mediating the process of knowledge transmission. Secondly, while most of the recent literature has focused on the case where all surplus from knowledge transmission is captured by the recipient (e.g. pure imitation), we consider all ranges of possible shares that the innovators/recipients can appropriate and their impact on growth. In a simple one period model, we derive a Hosios condition for the optimal share when firms are ex-ante homogeneous. But we also find that as the degree of heterogeneity increases, the share of innovators must decrease to maximize growth, approaching zero for sufficiently large heterogeneity. Our calibrated dynamic model suggests that the optimal share of surplus innovators appropriate should be in the lower end, consistent with weak intellectual property rights.