

Technology Licensing in Vertically Related Markets

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Abstract

This paper discusses the possibility of technology licensing by means of a fixed-fee or royalty in a vertically related market. There are two markets, upstream and downstream and duopoly firms have Cournot competition in each market producing homogeneous goods where one of the firms in the upstream market has a cost reducing innovation or technology. It is found that both fixed-fee and royalty licensing are better in all aspects when compared to no-licensing case both under non-integrated and integrated vertical market. However, under integrated vertical market royalty is superior to fixed-fee licensing while under non-integrated vertical market it's indecisive.

JEL classification: L12, D24, L13

Keywords: Technology licensing, Vertical Integration, Cournot, Homogeneous goods

