

Economics Seminar, Indian Statistical Institute, New Delhi

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TITLE: Accommodation or Deterrence in the Face of Commercial Piracy: The Impact of Intellectual Property Rights (IPR) Protection

DAY AND DATE: 11:30 AM, Friday, 7th January, 2011

VENUE: Seminar Room 2, ISI Delhi

ABSTRACT

In this paper, we address the issue of illegal copying or counterfeiting of the original product and Intellectual Property Rights (IPR) protections. The original product developer makes costly investment to deter piracy in a given regime of IPR protection. In the presence of a commercial pirate, we find that it is profitable for the original producer to accommodate the pirate when there is weak IPR protection, and deter when the IPR protection is strong. However, in the comparative statics analysis, we find that there is a non-monotonic relationship between the optimal level of deterrence (chosen by the original producer) and the degree of IPR protection in the economy. The relationship between the rate of piracy and IPR protection is found to be monotonically decreasing whereas the relationship between the rate of piracy and the quality of the pirated product turns out to be non-monotonic. On the other side, from the commercial pirate's point of view, the most profitable way to survive in the market is to produce a pirated product of moderate quality. Our model also provides a possible explanation of varying piracy rates across countries/regions.