

**WWZ Reseach Seminar**

**Tuesday, December 10, 2019, 12:30pm, S 15, HG**

**Prof. Joao Montez, Université de Lausanne**

**"Generics and early entry agreements"**

**ABSTRACT**

“We study the incentives for a monopoly incumbent to reach an early entry agreement that allows a generic to enter just before its patent expires, and its consumer and social welfare effects. In our model entry by more than one entrant is unprofitable. In the absence of an agreement, the entry game has a “grab the dollar” structure, with each generic entering in each period with a low (high) probability if entry costs are high (low). Thus the incumbent can remain a monopolist for some time after patent expiry, until one or more generics finally enter. An early entry agreement guarantees that a single generic enters the market immediately, and it allows the incumbent to extract the entrant's profit. It will be reached in equilibrium when entry costs are low or the entry process is short. In these instances, early entry agreements also tend to hurt consumers. Allowing such agreements does however increase social welfare in a benchmark model of vertical differentiation, even when the expected competition on the market is reduced. The same holds in a benchmark model with captive consumers and shoppers, provided the share of captives is not too high.”