

## “The Effect of Inequality on International Patent Applications”

*Christian Kiedaisch*

In this paper, a model with non-homothetic preferences is analyzed in which inequality affects the incentives to innovate through the channel of demand. It is shown that the relative importance of market size and price effects depends on the size of the population and on total income and that inequality is more likely to be harmful (or less likely to be beneficial) for innovation the higher GDP per capita is. The model is extended to a multi-country setting in order to make predictions about how population size, GDP and the level of inequality within a country affect the number of international patents that are validated in the country. In an empirical analysis based on PATSTAT data, we find a positive association between inequality and international patent flows when per capita income of a country is low and a negative association when per capita income is high. These results are in line with the model predictions and robust to the inclusion of several control variables.