

the theoretical predictions, in section III we turn to the pharmaceutical industry in Canada. We find that the evidence is at odds with the theory. The modification of theory is needed. We include a brief review of Canadian patent policy. Next, the policy implications of the patent term and policy debate are taken up. In section IV, a brief description of new growth theory is given. In these models, R&D activity by imperfectly competitive firms in world markets brings about growth.¹⁰ The optimal patent term issues are addressed in the framework of imperfectly competitive product markets and where R&D activity is market propelled. This section is concluded by suggesting specific predictions about the optimal patent life in a trading economy. In section V, the analysis turns to the scope of patents and includes a brief discussion of the issue of litigation costs associated with patent protection. Conclusions are found in section VI. In Annex A, the Nordhaus model is formally worked out. In Annex B, there is a discussion of the interaction of R&D activity and other factors, such as tax policy, the degree of market competition, demand growth and corporate restructuring. The discussion of these issues is supported by empirical evidence in each case. Annex C comprises charts illustrating the changes to average effective patent protection afforded to patented medicine in Canada.

¹⁰ Gene M. Grossman and Elhanan Helpman, *Innovation and Growth in the Global Economy*, Cambridge, Mass: MIT Press, 1991.