This thesis develops a new theoretical framework for modeling process innovations. In contrast to the existing literature, the global analytical approach pursued in the thesis makes it possible to study not only how different economic factors and economic policies affect R&D investments on existing markets, but also how they influence the formation of new markets. The strength of the analysis is that various stylized facts of innovation dynamics emerge from the same unifying framework. The analysis reveals possible hidden opportunity costs of existing competition policies that prohibit cartel formation, and provides new insights into the R&D investment decisions of firms whose innovation efforts are subject to imitation.

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