

Macro Roundup Article

Headline: [Evaluation and Learning in R and D Investment](#)

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Tweet: [. @JoshuaLKrieger @Danielle_Li @DimitrisPapan20](#) examine R+D investment in drug development and find that research into novel therapies often leads to profitable opportunities in successor therapies that are closely related.

Summary: If past research informs current work, then firms face a choice. Is it more valuable to learn from exploring new areas, or to exploit the information revealed by past work? In this paper, we show that despite novel drugs generating more learning, firms prefer to invest in incremental drugs, which are easier to evaluate. This presents a dynamic tension: while firms value the ability to discard incremental drugs that are unlikely to succeed, they are reluctant to make the types of exploratory R&D investments that improve future screening decisions. Our results suggest that policymakers could provide stronger incentives for firms to develop novel drugs by making it easier for them to appropriate indirect revenues from potential successors. These revenues, which can exist even when the focal project fails, disproportionately increase the overall returns to investing in newer, more uncertain research areas.

Primary Topic: Innovation/Research

Topics: Academic paper, Innovation/Research, Productivity

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