

# Patents are the Foundation of the Market for Inventions

By

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## ABSTRACT

The paper develops a comprehensive framework demonstrating that patents provide the foundation for the market for inventions. Patents support the establishment of the market in several key ways. Patents as a system of intellectual property (IP) rights increase transaction efficiencies and competition because they offer exclusion, transferability, disclosure, certification, standardization, and divisibility. Patents allow owners to control how inventions are made, used, and sold so that the market for inventions is a market for innovative control, which provides efficient incentives for invention, innovation, and investment in complementary assets. Patents as tangible real assets promote the financing of invention and innovation. The market foundation role of patents refutes the erroneous “rewards” view of patents. The discussion considers how economic benefits of the market for inventions should guide IP policy and antitrust policy.