

Abstract

Digital piracy is a significant issue worldwide. In this thesis, I develop a model to study the effect of subsidizing or taxing the producer (developer) of a digital good on his decision whether to implement private protection of his product. I find that subsidies and the private protection of the producer are strategic complements: while subsidizing the producer incentivizes him to spend more resources on the private protection of his product against piracy, while taxing the producer takes away this incentive. I also explore the interaction between the two forms of public IPR protection: piracy fines and subsidies for the producer. I find that subsidies and piracy fines are strategic substitutes: increasing fines imply lower subsidies to the producer. Furthermore, I study whether subsidies or taxes are socially optimal. Within the modelling framework used, I find that both subsidies and taxes can be socially optimal depending on the existing piracy fines and the quality of the pirated product. While the conclusions may be particular to the modelling framework I develop, they may still provide valuable insights for policymakers when developing new anti-piracy measures. Further research is required to explore the interaction between subsidies and anti-piracy fines when both variables are endogenous.