

## **Strategic R&D Investment Under Liability Law**

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*ABSTRACT This paper analyzes the incentives of duopolists to invest in advanced care technology under liability law. We establish that investment incentives under strict liability are in line with the taxonomy of Fudenberg and Tirole (1984), whereas the investment incentives under negligence most likely are not. Indeed, investment incentives under negligence are dependent on the timing of the policy maker's regulations, whether or not due care is firm specific, and whether or not precautionary measures are durable.*

*Key Words:* Strategic Behavior; Care; Induced Technical Change; Liability Law; Imperfect Competition.

*JEL classifications:* L13, K13.