

## A Note on R&D and Price Elasticity of Demand

By Dorothea Lucke, Berlin, Philipp J.H. Schröder, Aarhus and Berlin,  
and Dieter Schumacher, Frankfurt (Oder) and Berlin\*

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### Summary

This note explores the relationship between the price elasticity of demand and the R&D intensity of the product. We introduce the concept of R&D intensity into a standard Dixit-Stiglitz/Krugman-type setting. R&D activity is treated as a fixed cost of production. Within this framework, sectors with a higher R&D intensity show a lower price elasticity of demand. This proposition is confirmed by an empirical investigation of export demand for manufactured goods from major industrialised countries. Consequently, real exchange rate changes have an impact on the commodity structure of exports.

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