

Insider Trading and Innovation

by

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ABSTRACT

This paper assesses whether legal systems that protect outside investors from corporate insiders increase or decrease the rate of technological innovation. Based on over 75,000 industry-country-year observations across 94 economies from 1976 to 2006, we find that enforcing insider trading laws spurs innovation—as measured by patent intensity, scope, impact, generality, and originality. Consistent with theories that insider trading slows innovation by impeding the valuation of innovative activities, the relationship between enforcing insider trading laws and innovation is much larger in industries that are naturally innovative and opaque, and equity issuances also rise much more in these industries after a country starts enforcing its insider trading laws.

Keywords: Insider Trading; Financial Regulation; Intellectual Property Rights; Patents

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