

**Abstract**

Using a game theoretical model on firms' simultaneous investments in product and process innovation, we deduct and empirically test hypotheses on the optimal R&D portfolio, investment, performance, and dynamic efficiency of R&D for acquisitions and in independently competing firms. We use Community Innovation Survey data on Italian manufacturing firms. Theoretical and empirical results show that firms involved in acquisitions invest in different R&D portfolios and invest at least as much in aggregate R&D as independent firms. The empirical results do not support our hypothesis on dynamic efficiency since acquisitions lead to inferior R&D performance