Abstract: This study revisits the relationship between competition and innovation by incorporating an endogenous market structure in a dynamic general equilibrium model. We consider a free-entry model that the leader engages in Cournot competition with both non-innovative and innovative followers in each industry. A competition-enhancing policy, which reduces entry cost, can stimulate the entry of innovative followers when the entry cost is high. However, when the entry cost is sufficiently low, the entry of noninnovative followers crowds out innovative followers from the market. As a result, there is a non-monotonic relationship (inverted-V shape) between competition and innovation. Furthermore, we show that, while strengthening patent protection positively affects innovation when competition is sufficiently intense, the effect may be negative under milder competition. This suggests that a competition policy could complement a patent policy.