

Contents

1	Motivation	1
2	Venture Capital Finance in the United States and in Germany	7
2.1.	Emergence of Venture Capital and Government Regulations	8
2.2	Recent Development of Venture Capital Finance	12
2.2.1	Investments	12
2.2.2	Fundraising	19
2.3	The Relationship between Entrepreneurs and Venture Capitalists	24
2.3.1	Venture Capital Cycles	25
2.3.2	Portfolio Strategies	30
2.3.3	The Role of Venture Capitalists' Experience	33
2.4	The Relationship between Outside Investors and Venture Capitalists	34
2.4.1	Outside Investors and Organizational Forms	34
2.4.2	Differences between Venture Capitalists	37
2.4.3	The Role of Venture Capitalists' Reputation	38
2.5	Does Venture Capital Increase Efficiency?	40
2.5.1	Performance of Venture-Capital-Backed Enterprises	40
2.5.2	Risks and Returns for Outside Investors	42
2.5.3	Venture Capitalists' Reward	44
2.6	Summary	46
3	Dynamic Efficiency of Venture Capital Markets	48
3.1	Methodology Used and Related Literature	50
3.2	Under What Conditions Does Venture Capital Emerge?	52
3.2.1	Overview of the Model	53
3.2.2	The Economy without High-Technology Enterprises	55
3.2.3	High-Technology Enterprises and Venture Capital	58
3.2.4	Do Venture Capital Markets Improve Welfare?	68

VIII Contents

3.3	The Effects of Venture Capitalists' Reputation Building	72
3.3.1	Asymmetric Information between Outside Investors and Venture Capitalists	73
3.3.2	Simulation of Venture Capital Investments	78
3.3.3	Interpretation of the Simulation Results	83
3.4	The Effects of Venture Capitalists' Experience Accumulation	87
3.4.1	Experience and Success Probability	88
3.4.2	The Demand for Venture Capital	89
3.4.3	Simulation of Venture Capital Investments	90
3.4.4	Interpretation of the Simulation Results: The Importance of Path Dependencies	95
3.5	Additional Determinants	102
3.6	Summary	106
3.7	Appendix	109
4	The Effects of Public Subsidies on Path Dependencies in Venture Capital Markets	113
4.1	The German BTU Programme and Its Predecessors	115
4.2	Do Public Subsidies Improve Welfare?	118
4.2.1	Mature Venture Capital Markets	118
4.2.2	Venture Capital Markets on the Transition Path	121
4.3	An Agency Framework	123
4.3.1	Methodology Used and Related Literature	124
4.3.2	Overview of the Model	126
4.3.3	Expected Pay-Offs	128
4.3.4	The Role of Experience	131
4.4	The Impact of Public Loan and Equity Schemes	133
4.4.1	Effects on Expected Pay-Offs	134
4.4.2	Experienced Venture Capitalists	135
4.4.3	The Surplus of the Enterprise	142
4.4.4	Inexperienced Venture Capitalists	144
4.4.5	A Numerical Example	147

4.5	Advantages of Offering a Choice between Loan and Equity Schemes	150
4.5.1	The Venture Capitalist's Choice	151
4.5.2	Impact on Venture Capitalist's Management Support	157
4.5.3	Choice on the Basis of the Enterprise's Surplus	158
4.6	Summary	160
4.7	Appendix	164
5	Concluding Remarks	168
	References	177
	Index	189