

# Comments on “Self-selection and Advice in Venture Capital Finance”

# 1. Research question

- Tech entrepreneurs: project heterogeneity *and* effort(s) important.
- Initial uncertainty on project quality.
- Entrepreneur (E): project quality, effort.
- VC: not only finance, but also advice (=effort).
- Contracts, effort levels, efficiency, comp. stats., policy.

## 2. Some modeling details

- Signal – contract – type revealed – “change of” contract – efforts – outcomes.
- Effort by both agents necessary – two-sided MH. (Repullo & Suarez, RoF 04. Casamatta JoF 03 ).
- Entrepreneur (E) effort discrete → always efficient.

## 2. Some modeling details covered 1

- Initial uncertainty on project type symmetric, i.e., VC and E share the posterior (post signal) assessment.
- no signalling.
- for any signal level, both types of E's in the pool.
- inefficiency.

## 2. Some modeling details c'ed 3

- Uncertainty over project quality (not outcome) removed prior to effort.
- affects contract through “conversion price” (lump sum payment to E).

### 3. Comments/suggestions

- Very well-written paper; rich model, yet analytically tractable.
- Asymmetry in beliefs and/or accuracy of the signal (e.g. Ueda, JoF 03).
- Renegotiation after conversion (verifiable to outsiders)?
- A stylized fact: VCs screen intensively.
- Comparisons – Niinimäki and Takalo (HECER DP 173, 07).