March 4th, 2019
KAP 414
2:00 P.M. – 3:00 P.M.

Steven Kou

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"A Theory of Peer-to-Peer Equity Financing: Preference-Free and Menuless Screening Contracts"

Abstract: A popular form of fundraising is peer-to-peer (P2P) equity financing, in which an entrepreneur can raise capital privately (e.g. hedge fund capital financing) or publicly (e.g. via initial coin offerings) from funders without traditional financial intermediaries. To overcome the information asymmetry between the entrepreneur and the funders of the project, we propose an incentive contract for P2P equity financing, by showing that it can attract some entrepreneurs who are attractive from the funders' perspective and deter all entrepreneurs who are unappealing to the funders. The contract has two crucial components: (i) a first-loss deposit to be used to offset some of the funders' losses and (ii) a liquidation boundary. Two case studies are given, one for private fund raising in hedge funds and one for public fund raising via initial coin offerings.