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Venture Capital in the United States

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VENTURE CAPITAL IN THE UNITED STATES

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Venture Capital has proven to be of great importance in the formation and development of new products, companies and markets. Hitherto, very little research has been devoted to finding ways to encourage this relatively nascent industry. This paper provides a structural framework to understand the workings of the venture capital market. It looks at certain exogenous factors to determine their influence on the supply and demand of venture capital. Based on the findings, it makes suggestions to predict and boost venture capital activity using these factors.

Particular attention has been paid to the Capital Gains Tax. Theoretically, the tax can affect both the entrepreneurs and Venture Capitalists. The paper develops an empirical model to estimate the differential in the disincentive resulting from capital gains taxation between these two groups.