

Sofaer iMBA Course 1238.3357.01: Entrepreneurial Finance and the VC World

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Overview

The course addresses one of most critical areas in entrepreneurship: the financing of new, innovative firms. The course combines the variety of academic perspectives with practitioners' views, thus making it appropriate both for students interested in pure academic research and for those looking to improve their skills and knowledge-base real practice applicability.

We start from positioning the field of entrepreneurial finance within the overall managerial and innovation economics studies, we explain the evolution of ideas into firms and the migration of managed economies towards entrepreneurial economies processes; we continue by understanding the specific problems that differentiate entrepreneurial finance from corporate finance. We propose a model that describes the basic process of investing in risky entrepreneurial projects and discuss the strategies of investors, entrepreneurs and financial intermediaries. Afterwards we present the various new firms financing mechanisms during their evolution stages with focus on VCs structure and operation, emphasizing the role of VCs in the development of the high-tech industry segment. Within this context we address matters of contract and security design, regional comparison, performance measurement and policy.

The course includes several meetings with prominent practitioners in the field as well as development by small groups of students of real high-tech firms' case studies.

The course is beneficial in particular to students specializing in finance, financial economics and/or entrepreneurship as well as technology or industrial management.

Prerequisites

The course requires reasonable acquaintance with:

- Introductory finance
- Introductory statistics / econometrics
- Firm Theory, Moral Hazard, Game Theory basics

Grading

The course grading is based on:

- 20% - a couple of short quizzes
- 30% - group case study
- 50% - final exam

Teaching Documentation

The course is based on specifically developed teaching documentation but will also make use or refer to some of the following literature:

Books:

Jean Tirole, *Theory of Corporate Finance*, 2006 (Princeton University Press).

Richard L. Smith and Janet K. Smith, *Entrepreneurial Finance*, 2003 (Wiley Text Books).

Academic Papers:

Gompers, J. Lerner, and D. Scharfstein (2005), "Entrepreneurial Spawning," *Journal of Finance* 60, pp. 577-614.

Hellmann, T. and E. Perotti (2006), "The Circulation of Ideas in Firms and Markets," unpublished manuscript, UBC.

Puri, M. and D. Robinson (2005), "Optimism, Work/Life Choices and Entrepreneurship," working paper, Duke University.

Gompers, P. and J. Lerner (2001), "The Venture Capital Revolution," *Journal of Economic Perspectives* 15, pp. 145-168.

Sahlman, W. (1990), "The Structure and Governance of Venture Capital Organizations," *Journal of Financial Economics* 27, pp. 473-521.

Kaplan, S. and P. Stromberg (2003), "Financial Contracting Theory Meets the Real World: An Empirical Analysis of Venture Capital Contracts," *Review of Economic Studies* 70, pp. 281-315.

Gompers, P. (1996), "Grandstanding in the Venture Capital Industry," *Journal of Financial Economics* 43 pp. 133-156.

Non-academic Publications:

IVC Journal
The Economist
GEM reports
MoneyTree Reports

Homework Assignments

Students will receive 2-3 homework assignments in the form of short quizzes related to class material. The purpose of the quizzes is the consolidation of the knowledge acquired in class.

Case Study in Teams

5-6 groups of students will prepare during the semester studies about the financing strategy of certain HIGH-TECH firms in their early stage phase (preferable proposed by the group, or chosen from a provided list), discuss those from a theoretical perspective and propose ex-post improvements.

Class Schedule (changes possible):

1	April 28 th	<ul style="list-style-type: none">• Circulation of ideas, idea processing and value creation; from idea to firm• Economics of Innovation elements• Basic terminology used during the course
2	May 3 th	<ul style="list-style-type: none">• Introduction to Entrepreneurial Finance• Course description, structure, methodology, grading etc.
3	May 5 th	<ul style="list-style-type: none">• New projects borrowing capacity• The role of financial intermediaries• Investment process model
4	May 8 th	<ul style="list-style-type: none">• Entrepreneur vs. Investor
5	May 12 th	<ul style="list-style-type: none">• Firm evolution and financing stages• Venture Capital Financing
6	May 17 th	<ul style="list-style-type: none">• Venture Cycle
7	May 19 th	<ul style="list-style-type: none">• VCs performance• Contract and security design in VC world
8	May 24 th	<ul style="list-style-type: none">• Policy issues
9	May 26 th	<ul style="list-style-type: none">• Entrepreneurship in Israel and Worldwide
10	May 31 st	<ul style="list-style-type: none">• Group Case Study presentations 1
11	June 2 nd	<ul style="list-style-type: none">• Group Case Study presentations 2
12	June 14 th	<ul style="list-style-type: none">• Final Exam