Discussion of Thomas Gehrig and Rune Stenbacka (2004): "Screening Cycles"

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1. Model

Driving Force: Screening of applicants (due to an adverse selection problem) leads to worsening of pool quality over time.

Countervailing effect: Flow of new entrants improves pool quality.

Screening: as long as average pool quality is sufficiently high.
Inactivity: waiting period until pool quality has recovered.

Assumption that entrepreneur applies successively at venture capitalists is crucial for the existence of cycles.

How could an alternative assumption overturn the main result?

2. Empirical Evidence

More evidence is necessary:

1. Simulations

2. Predictions of the model

   - Cycles are shorter in high-tech industries.

   - Cycles are longer in countries with a large competitive venture capital market.

   - Cycles are more likely if interest rates are high.

   - Cycles are more likely in industries with a high percentage of early stage investments.

   Is there empirical evidence consistent with these predictions?