CROWDFUNDING, EFFICIENCY, AND INEQUALITY

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Abstract
We show how decentralized individual investments can efficiently allocate capital to innovating firms via equity crowdfunding. We develop a model where consumers have privately known consumption preferences and may act as investors. Consumers identify worthwhile investments based on their own preferences and invest in firms whose product they like. In the presence of aggregate demand uncertainty, an efficient capital allocation is achieved if all groups of consumers have enough liquidity to invest. If some groups of consumers cannot invest, capital flows reflect preferences of liquid investors but not future demand. Comparing with traditional financing forms, crowdfunding in the absence of liquidity constraints can be superior unless traditional financiers are fully competitive and perfectly informed. (JEL: D24, D31, D53, D63, D82, G20)

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