# 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)

*The editor in charge of this paper was Juuso Välimäki.*

Acknowledgments: We thank the editor, Juuso Välimäki, and two anonymous referees for valuable suggestions, and Philippe Aghion, Christoph Bertsch, Bruno Biais, Axel Börsch Supan, Peter Funk, Kerstin Gerling, Martin Hellwig, Johannes Hörner, Thorsten Hens, Eckhard Janeba, Ernst Maug, Benny Moldovanu, Jörg Oechssler, Martin Peitz, Nicola Persico, Elisabeth Schulte, Elu von Thadden, Anjan Thakor, Martin Weber, and seminar participants at various institutions for helpful comments and discussions. This paper is a strongly revised and extended version of the theoretical part of CEPR discussion paper 6750. The research was supported by the German Research Foundation (DFG) via SFB 884. Grüner is a Research Fellow at CEPR.)

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