

### Identifying Information

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### Paper Information

Title:	Selecting Innovators: Patents or VCs as Signals
Abstract:	Selecting Innovators: Patents or VCs as Signals Xuan-Thao Nguyen & Erik Hille Startups and high growth companies burn cash on their runway to meet milestones. In between VCs rounds of funding, startups acquire debt as capital. Commercial banks are the main source of cheap loans in the United States; they would be ideal lenders to startups. But lending to startups is too risky for banks because startups' cash flow is negative, tangible assets are nonexistent, and most valuable assets are intangibles. What can banks do, if they wish to lend to startups in the innovation intensive sector, to ensure that they will get paid on the loan? In an early paper, we turn to economic theory and create a signaling model with partial separating equilibria to demonstrate how banks can address the information asymmetry problem by relying on a truth-telling signal in assessing the likelihood a startup firm will obtain subsequent rounds of capital funding. The model is consistent with bank presentations and evidence from publicly available sources. We are now collecting data from TechCrunch and USPTO to support our signal theory in bank's selection of innovators. With the data, we seek to demonstrate how banks can make their selections of startups, ensuring their returns and encouraging innovations. We will report on whether patents and/or VCs are signals for technology bank loan as capital.