

Publication

Venture Capital

Book Item (Buchkapitel, Lexikonartikel, jur. Kommentierung, Beiträge in Sammelbänden)

ID 2294654

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Year 2013

Title Venture Capital

Editor(s) Baker, H. Kent; Filbeck, Greg

Book title Portfolio theory and management

Publisher Oxford University Press

Place of publication New York

Pages 654-673

ISSN/ISBN 978-0-19-982969-9

Many entrepreneurial businesses require substantial capital in the startup phase. The period needed until a firm can bring its products to the market and generate revenues can take years, particularly in high-tech sectors involving scientific research and a complex development process. Often the founders do not have sufficient resources to finance the startup phase on their own. Thus, they need external financing, which, by nature, is mostly equity capital. Because startup firms face uncertain future prospects and lack a strong track record, they are unlikely to receive debt financing. Thus, venture capitalists are investors specialized in funding young businesses. They help close the gap when conventional financing is inapplicable. This chapter provides an overview of the venture capital market, the financial economies of venture capital, and the special features of venture investing.

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