Application for NBER Digitization Workshop

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I am a PhD candidate in Business and Public Policy at Haas School of Business, Berkeley and I am very interested in attending the NBER Digitization Tutorial. My research focuses on crowdfunding and social networks. I pursued coursework in Microeconomic Theory, Econometrics, Applied Econometrics, Corporate Strategy and Technology, Political Economy, Contract Theory, Economics of Institutions, Psychology and Economics, Labor Economics, Industrial Organization, and Corporate Finance. I expect to graduate in May 2016.

In my dissertation, I study how social influence affects funding patterns in crowdfunding. In other words, I look at how the size of previous contributions affects subsequent funding decisions. The canonical model of social learning suggests that individuals learn from the actions of previous agents and actions converge over time. However, this has been difficult to establish empirically. The study of social influence is plagued with identification problems such as homophily and correlated shocks. In order to causally estimate the effect of previous contributions, I use a feature of the Indiegogo platform where only a set number of previous funders can be easily seen and every new funder displaces the oldest one in the set.

I find that larger (smaller) previous contributions significantly increase (decrease) subsequent contributions. This crowd-in effect is much larger in business projects, where the contributor receives utility from expecting to own the product, than in art and community projects, where the contributor gives due to social preferences. When looking at the effect of social influence by gender, I find there is asymmetry between males and females. Males are not affected by a large previous contribution but give less when they see a small previous contribution. On the other hand, females give more when observing a large previous contribution and when observing a small previous contribution. However, this positive social influence effect is driven by females giving more when seeing a large previous contribution by a female and when seeing a small previous contribution by a male. This implies females trust the judgments of other females but not that of males. I also examine the mechanism through which social influence acts, whether it is social learning, where an individual learns about the quality of the product through others' decisions, or contagion, where an individual doesn't take into account the information about quality contained in the previous contribution but uses it as a basis for his/her contribution. I find that for both large and small previous contributions, the effect operates through contagion. This causal effect of previous contributions on subsequent funding decisions suggest that both entrepreneurs and crowdfunding platforms can better take advantage of the effects of social influence to harness the power of the crowd.

Another aspect of crowdfunding I am studying is its effect on the VC industry. There is anecdotal evidence that VC’s have been using crowdfunding as a test of the market to better understand demand for the product/service. This means that VC’s now have more information about the product/service and also more informative signals about the founder’s ability. If this is indeed the case, my hypothesis is then VC’s now fund projects at a later stage, fund fewer projects, but invest more in each of these projects. The effect on governance is less clear because on the one hand, more informative signals about the founder’s ability means less monitoring is needed. However, a higher level of investment would mean more monitoring takes place. I am now exploring ways to test these hypotheses with some exogenous variation to better understand how the VC industry has adapted to the rapid growth in crowdfunding.