

# Fostering Entrepreneurship: Backing Founders or Investors?

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## Abstract:

Governments across the globe want to foster entrepreneurial ecosystems, but there is no consensus on what policies are most effective. This paper considers an entrepreneurial ecosystem where entrepreneurs get funded by angel investors who themselves are experienced entrepreneurs. It develops a dynamic model with overlapping generations, where successful entrepreneurs become investors. The theory finds an intergenerational linkage between current valuations of start-ups and future funding supply. Government policies that back founders by helping them start companies reduce valuations. In contrast, policies that back investors by making investments more attractive drive up valuations, and thereby increase funding for future entrepreneurs.

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