Appendix:

This appendix fixes some uncorrected typos in the published version.

Given that \( I_T^{\gamma, K} = \gamma (V_T - (F + K)) \mathbb{I}_{\{V_T > (F + K)\}} \) and the firm’s asset value net of private benefits \( X_T = V_T - I_T^{\gamma, K} = V_T \mathbb{I}_{\{V_T > (F + K)\}} + (V_T - \gamma V_T + \gamma F + \gamma K) \mathbb{I}_{\{V_T > (F + K)\}} \), it should be clear that \( V_T > F + K \Rightarrow X_T > (F + K) \). If this is not, notice that:

\[
V_T > F + K = (1 - \gamma) V_T > (1 - \gamma) (F + K) = (1 - \gamma) V_T > (F + K) > (F + K) = X_T > (F + K)
\]

The total equity at time \( T \), which is defined on the firm’s assets value net of private benefits is now

\[
[X_T - F]^+ = (X_T - F) \mathbb{I}_{\{X_T > F\}} = (X_T - F) \mathbb{I}_{\{F + K > X_T > F\}} + (X_T - F) \mathbb{I}_{\{X_T > F + K\}}
\]

\[
= (V_T - F) \mathbb{I}_{\{F + K > V_T > F\}} + (V_T - \gamma (V_T - (F + K)) - F) \mathbb{I}_{\{V_T > F + K\}}
\]

\[
= (V_T - F) \mathbb{I}_{\{F + K > V_T > F\}} + (V_T - F) \mathbb{I}_{\{V_T > F + K\}} - \gamma (V_T - (F + K)) \mathbb{I}_{\{V_T > F + K\}}
\]

\[
= [V_T - F]^+ - \gamma [V_T - (F + K)]^+.
\]