

Probability of failure (risk), f

A's best-response function (ICC)

$$f = \frac{1}{2} + \frac{\delta}{2q}$$

$$f^N = \frac{3}{4}$$

$$f^C = \frac{1}{2}$$

n

c

g

$\hat{\pi}^N$

$\hat{\pi}^C$

Rent

$$= \delta_g - \delta^N$$

A's participation constraint (PC)

$$f = \frac{\delta}{q}$$

$$\delta^N = \frac{q}{2} = \delta^C$$

δ_g

Interest factor, δ

