

Risk, f

Borrower's participation constraint

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

Isoprofit curves

$$\pi_1 = \pi^L$$

$$\pi_2 = \pi^*$$

$$\pi_3 = \pi^H$$

Feasible combinations
of risk and interest

a

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

$$\delta^* = \frac{q}{2}$$

Interest factor, δ

