

**The one Period Problem of a Monopoly
Incentive Compatible Equity and
Debt-linked Contracts
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ABSTRACT

In this paper, I analyze the role of equity and debt linked contracts in a monopoly setting. I show that the equity contract dominates the debt linked contracts because it attracts higher ability entrepreneurs and provides more profit to the monopolist. I also show that the social welfare that results from the equity contract exceeds those derived from debt financial instruments.