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EUROPEAN DEFENCE FIRMS: THE INFORMATION BARRIER ON PRIVATE FINANCE*

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Keywords:

- European defence firms
- Private finance
- Bayesian Equilibrium
- Asymmetric information

Notes

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¹See, on Vrancea (2004), The Econom

²The ave (2002).

³See

⁴For inst the governm market power of renegoti



⁵Adding a second risk, related to external uncertainty stemming from the randomness of the government's commitment, would not change in a significant way the main insights of the model.

⁶Actually, firms hold several overlapping projects and the class of risk is a weighted average of the risks specific to each project. Assuming that the firm may be represented by one project is tantamount to considering a firm running identical-risk projects.

⁷These operating costs come due at the end of the period. The total production cost is $K(1 + r) +$ under private finance or $K(1 + i) +$ under public finance.

⁸Under a fixed price contract, many governments used to finance a fraction of the debt at a low interest rate. We do not introduce here a linear combination of private and public funding since this generalization would not alter the main insights of the model.

⁹Since π_1 and $F(1) = 1$, the branch of F located to the right of the asymptote is outside the domain of existence of π^L .

¹⁰If π_1 were smaller than π_4 , the two regions would not overlap and this separating equilibrium would not have been possible. We also mention that π_1 can be smaller or bigger than π_3 .

¹¹A pool of... can be put forward

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