Optimal Risk Sharing in the Presence of Moral Hazard under Market Risk and Jump Risk

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This paper provides a tractable framework to study optimal risk sharing between an investor and a firm with general utility forms in the presence of moral hazard under market risk and jump risk. We show that, for any two-date discrete-time moral hazard model, there exists a continuous-time model that obtains the same optimal result. Moreover, we characterize the optimal risk sharing explicitly, in particular, the structural effect of jump risk on the optimal allocations.