

ABSTRACT

Security design is a critical aspect of corporate finance that aims to address various challenges. One such challenge is the issue of moral hazard that arises in contractual relationships, we focus on the relationship between a venture capitalist and an entrepreneur. Upon reviewing the literature, we encounter a class of models that analyses this relationship using a double moral hazard framework. We provide an overview of the securities that are in use and provide a rationale for the optimal design of such securities. As an extension, we incorporate social preferences to the existing model to understand how the optimal design changes.