

## Modification 2: add labor sector

- Fixed labor supply  $L$
- Production Function:  $(a' K_t^\gamma) k_t^{1-\gamma} l_t^\gamma$
- Intermediary  $i$ 's payoff:  $\frac{(1-\gamma) a' L^\gamma}{a} k_t$
- Workers' wage  $w_t$ :  $\gamma a' K_t L^{\gamma-1}$
- Intermediaries' choice of leverage determines  $K_t$ 
  - Investment decisions
  - (Bonus) payout policy
- Workers' welfare (value function) depends on  $K_t$