

Modification 4: Idiosyncratic losses

$$dk_t^i = g k_t^i dt + \sigma k_t^i dZ_t + k_t^i dJ_t^i$$

J_t^i is an idiosyncratic compensated Poisson loss process,
recovery distribution F and intensity $\lambda(\sigma_t^p)$

$v_t = k_t p_t$ drops below d_t , costly state verification by debt

