

Correction:

The condition under c) in Question 2 should read:

$$\begin{aligned}\Phi(K, r, L) &:= v(K - L, r) - (1 + r_0)L \\ & (= py_0 + (1 - p)y_1 - py_0 - (1 - p)(1 + r)D - (1 + r_0)L \\ & = \mu - (1 + r_0)K - pB\end{aligned}$$