Figure 1

Timeline of the possible paths of stand-alone firm S's assets-in-place

This figure plots all possible values of stand-alone firm S's assets-in-place on $t = 2$ and two states $\{G$ and $B\}$ on $t = 1$. The probability of each path is shown along the path. Long-term and short-term face values of debt are indicated in the graph as long and short lines with corresponding legends.

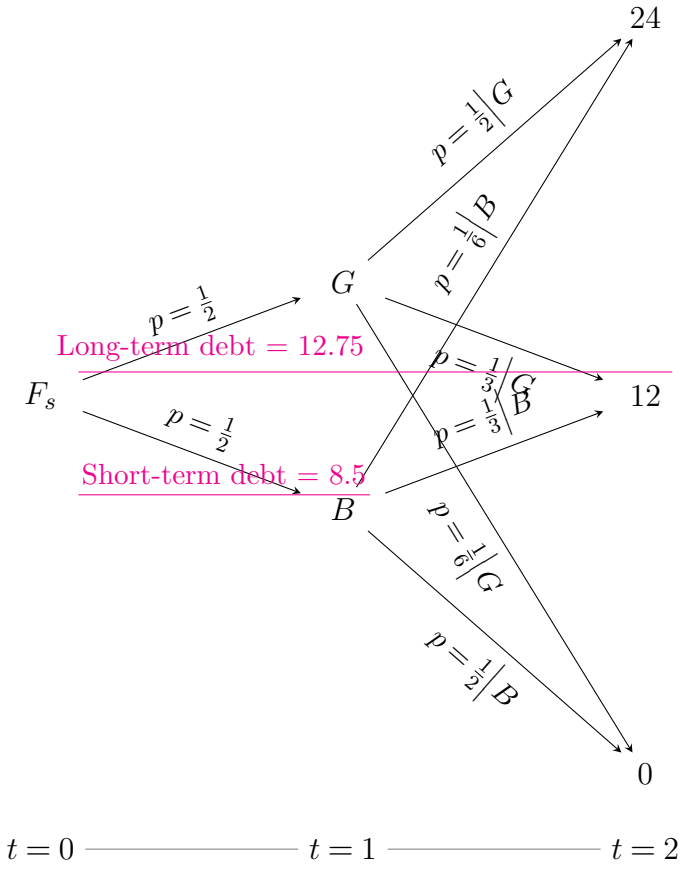
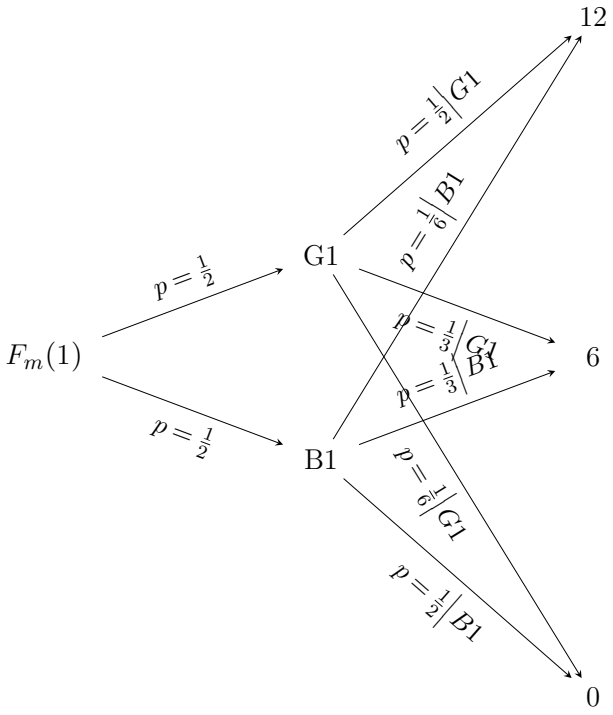


Figure 2

Timeline of the possible paths of multi-division firm M's assets-in-place

In this figure, panels (a) and (b) plot all possible values of multi-division firm M's two assets-in-place $F_m(1)$ and $F_m(2)$, respectively, on $t = 2$ and two states $\{G$ and $B\}$ on $t = 1$. The probability of each path is shown along the path. Panel (c) plots the same paths for the combined assets-in-place F_m for firm M. Long-term and short-term face values of debt are indicated in panel (c) as long and short lines with corresponding legends.

(a) **First assets-in-place:** $F_m(1)$



(b) **Second assets-in-place:** $F_m(2)$

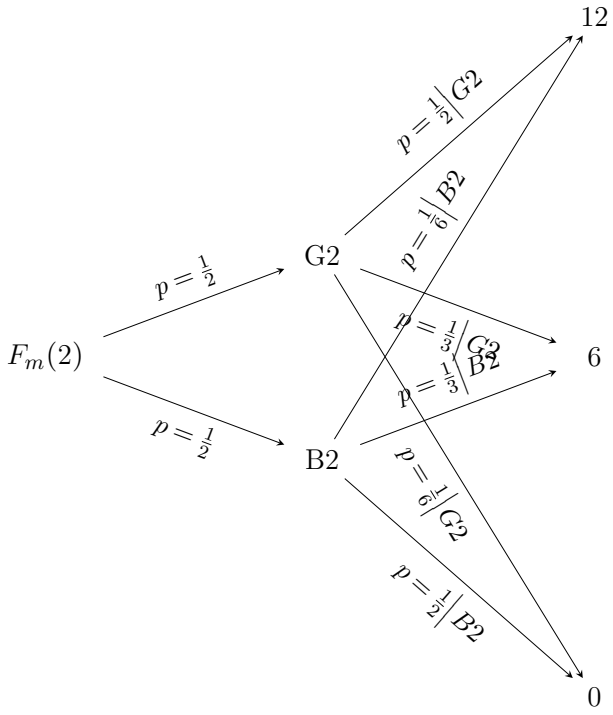


Figure 2

Timeline of the possible paths of multi-division firm M's assets-in-place (cont.)

(c) **Combined assets-in-place F_m**

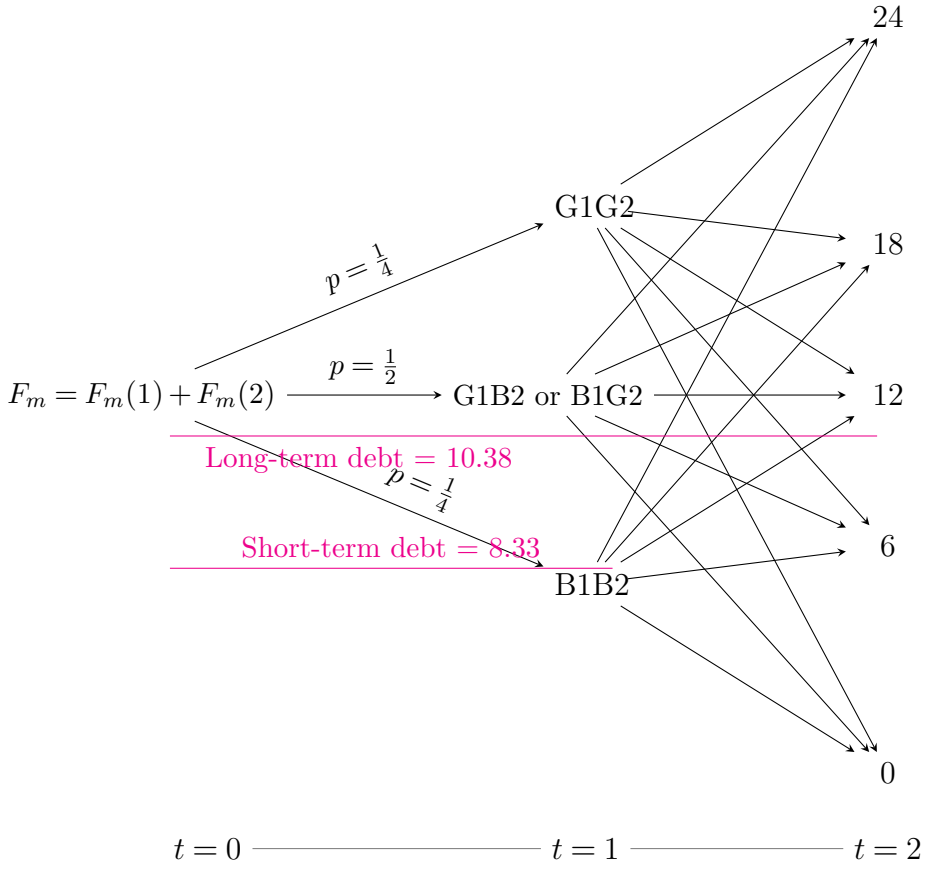
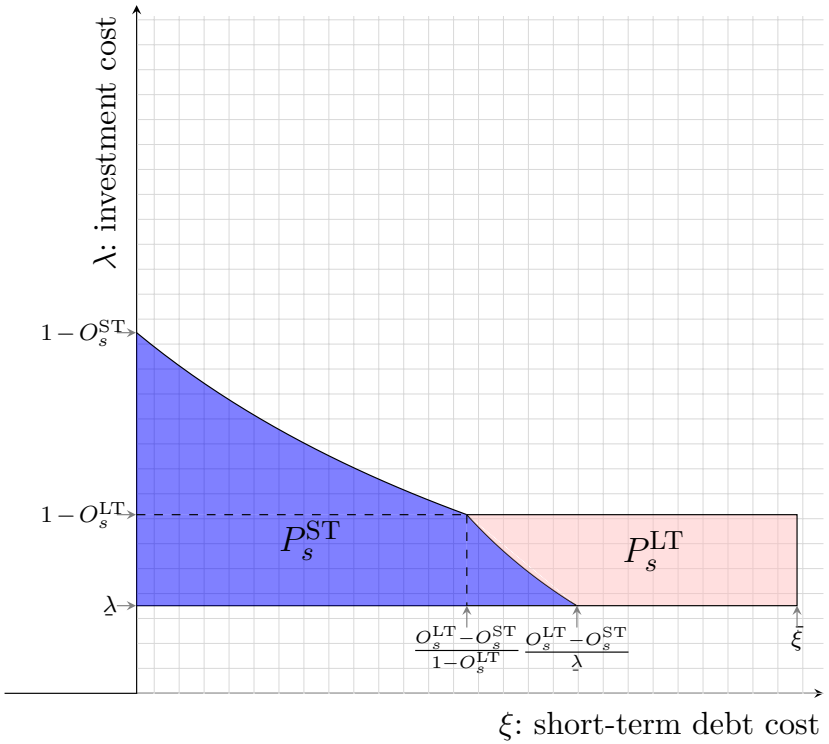
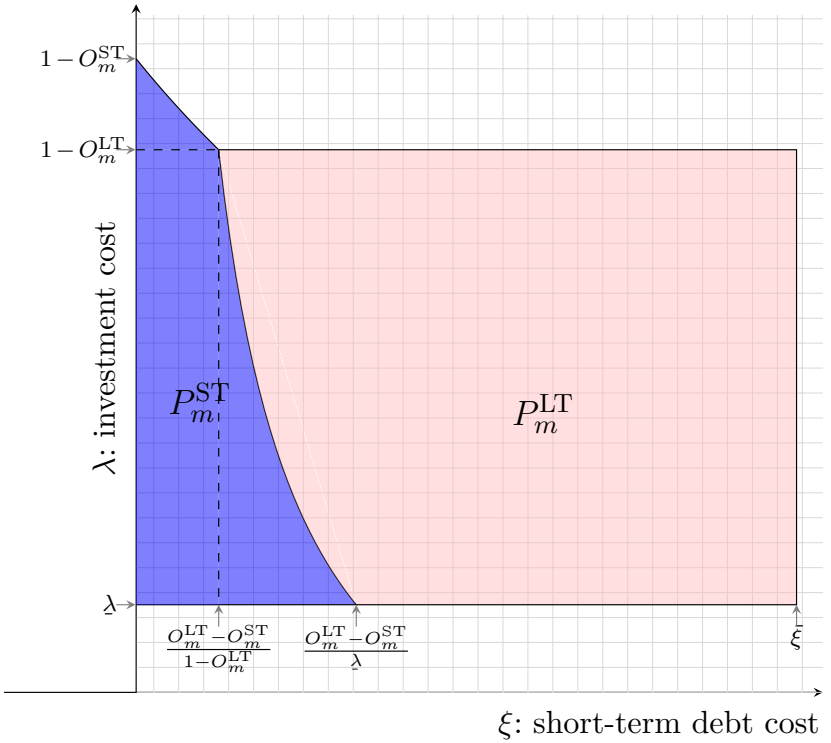


Figure 3

Plots of the numerical examples of $P_s^{\mathbf{ST}}$ and $P_m^{\mathbf{ST}}$

(a) **Stand-alone firm** S



(b) **Multi-division firm** M