1) S/H will want more investment in high risk projects than B/I/I will.

Reason: B/I/I have a fixed claim so that the downside hurts them but the upside doesn't really help them.

but S/H have a residual claim w/ limited liability. As a result, the upside benefits them while the downside doesn't affect them (once the value of the firm is what owned B/I/I).

2) S/H will pass up projects even if positive NPV

Reason: if default is likely then (B/I/I) get much or even all of benefit so S/H have a (net loss) if they fund the project.

Protection: can attempt to prevent high risk investments in debt covenants, stop credit monitoring, etc.