**Abstract:** We consider a duopoly in which firms can strategically choose equity shares on their rival's profits before competing in quantities. We identify equilibrium equity shares, and subsequently compare them against the optimal equity shares that maximize social welfare. Most previous studies assume that equity shares are exogenous, and those allowing for endogenous shares do not evaluate if equilibrium shares are socially excessive or insufficient. Our results also help us identify subsidies and taxes on equity acquisition that induce firms to produce a socially optimal output without the need to directly tax output levels.