

Employer: Sets no-shirking effort, \bar{e} , termination probability, t and wage, w

Worker's choice:

Does not work
 $e = 0$

Works
 $e = \bar{e}$

Chance:

Worker is
terminated
 (t)

Worker
keeps job
 $(1 - t)$

Chance:

Remains
jobless
 (j)

Gets a
new job
 $(1 - j)$

B

w

$w - \underline{u}$

$w - \underline{u}$

