

Employer:

Sets no-shirking effort,  $\underline{e}$ , termination probability,  $t$  and wage,  $w$

Worker's choice:

Does not work  
 $e = 0$

Works  
 $e = \underline{e}$

Chance:

Worker is  
terminated  
( $t$ )

Worker  
keeps job  
( $1 - t$ )

Chance:

Remains  
jobless  
( $j$ )

Gets a  
new job  
( $1 - j$ )

$B$

$w - \underline{u}$

$w$

$w - \underline{u}$

