

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 $w - \underline{u}$

