



ECONOMICS IN ONE VIRUS: CHAPTER 14

Why didn't my workers want to be rehired?

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GRADE LEVEL: 9-12 (ADVANCED)

TIME ESTIMATE: 45-60 MINUTES

Lesson Overview

Students will investigate unemployment trends related to the COVID-19 pandemic. After reading about public policy reactions to economic slowing, students will describe how people respond predictably to incentives. Students will determine the impact of public policy on personal incentives and take a position on a public policy proposal.



Objectives

- Students will be able to describe how people respond to incentives.
- Students will be able to explain how public policy affects the incentive structure of the economy.

Vocabulary

- Disincentive
- Financial disincentive
- Financial incentive
- Incentive
- Time inconsistency

Materials

- Graph of COVID-19 cases versus unemployment in the United States
- Warm-up worksheet
- Vocabulary preview and activity instructions
- Time inconsistency definition and examples
- Incentives excerpts
- Incentives excerpt analysis questions
- Liability debate excerpt/check for understanding

Pework (if applicable)

None

Warm-Up

- Students will view the graph of unemployment and COVID-19 cases.
 - Students will identify two trends in the graphs.
 - Students will attempt to explain the trends.
- Students and the teacher will discuss the graph using guiding questions:
 - What was the trend in COVID-19 cases?
 - What was the trend in unemployment?
 - Why might unemployment have continued to rise despite falling COVID-19 cases?
 - Why might some employees not want to return to work after initial COVID-19 related shutdowns and layoffs?
- Segue into incentives and disincentives for working.

Lesson Activities

• Vocabulary preview

- Split class into two teams and have the teams choose captains.
 - Read the instructions as provided on the vocabulary preview worksheet.
 - You may want to offer some incentive or prize for the winning team. It reinforces the vocabulary. If you have a points-based system, these offer a proxy for financial incentives.
 - You will read each of the following examples. Each team will decide if the example creates an incentive to work or a disincentive to work. Only the captain of each team can answer the question. The team that can answer the question correctly and first will win a point. The team with the most points at the end will win the game.
 - *A federal government loan from the Paycheck Protection Program allows a spa owner in Washington State to rehire employees that lost their jobs when COVID-19 closures closed the spas (incentive).* (Economics in One Virus, p. 211)
 - *States waive job-search requirements for unemployment benefits (disincentive).* (Economics in One Virus, p. 212)
 - *States expand eligibility for unemployment to self-employed workers (disincentive).* (Economics in One Virus, p. 212)
 - *Congress adds \$600 per week to state unemployment benefits for up to four months (disincentive).* (Economics in One Virus, p. 212)
 - *Most of the available jobs are in essential industries with higher risks of possible COVID-19 transmission (disincentive).* (Economics in One Virus, p. 212)
 - *Employers are required to save jobs to have loans forgiven.* (Economics in One Virus, pp. 213–214) *(There should be some confusion about this one. Pretend you have lost the key and let students argue about whether this is an incentive for employees or if it will change the behavior of the employers and make them offer higher wages or extra benefits.)*
 - *Additional unemployment benefits are set to expire next month.* (Economics in One Virus, p. 217) *(Hopefully there is more argumentation and confusion about this one. If there is not, just question each side. Regardless of what the students offer, ask if their responses speak to the present or to the future. Is it an incentive to work right now or a month from now? If students have a project due next month, are they going to work on it now or next month?)*
 - Pretend to end the game prematurely over the confusion of the last two questions.
- ### • Introducing and practicing with time inconsistency
- Have students read the definition of time inconsistency.
 - Have students work in pairs to identify the short- and long-term incentives associated with the examples from the game.
 - Have the pairs report findings for students to determine correct answers.


- Paycheck Protection Program example
 - i. *Short term: hire all workers back ASAP in order to reopen*
 - ii. *Long term: keep people employed and grow business to pay back loan*
- Job-search requirements
 - i. *Short term: do not look for a job*
 - ii. *Long term: start looking when requirement is enforced again*
- Expanded eligibility
 - i. *Short term: close small business*
 - ii. *Long term: reopen business when requirement is reinforced*
- Extra benefits
 - i. *Short term: get laid off or find way to collect unemployment*
 - ii. *Long term: return to work when extra benefits expire*
- Available jobs are in essential industries
 - i. *Short term: remain on unemployment while case transmission is high*
 - ii. *Long term: return to work when it is safer to do so*
- Hire workers back in a timely manner to get loans forgiven
 - i. *Short term: hire as many workers back as possible ASAP*
 - ii. *Long term: save layoffs for after loan period has expired*
- Additional benefits set to expire
 - i. *Short term: wait to look for a job and get the extra benefits while they are available*
 - ii. *Long term: get back to work when benefits are gone*

- **Incentive excerpts**

- Split the class into six groups.
- Have each group read one excerpt and prepare to report the following:
 - Describe how people were responding predictably to incentives.
 - Come up with a policy that would lead to a better social outcome.

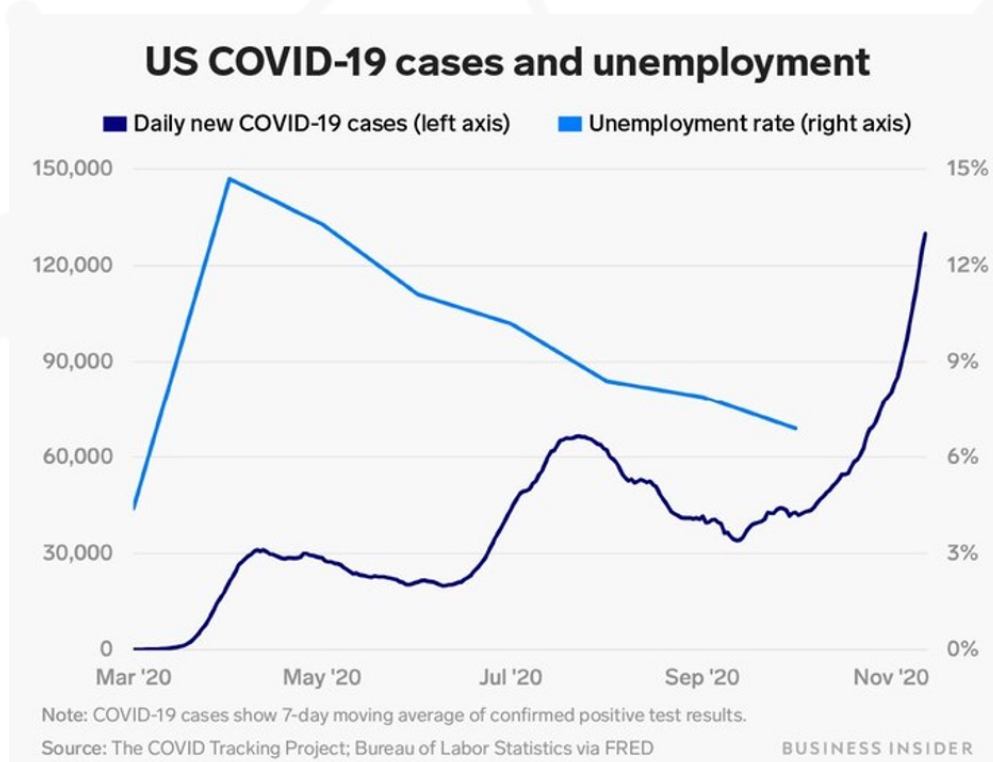
- **Liability debate excerpts/check for understanding**

- Have students read excerpts for or against liability limits.
- Have students answer: Should companies be held liable if their employees or customers get sick at their business?
 - Students may answer this either way as long as they provide evidence from the text and use two vocabulary words.
- A five-point sample rubric is below.
 - i. 1 point if the answer takes a side

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- ii. 1 point if the answer effectively defends the position with reasoning
 - iii. 1 point if the answer effectively references the text
 - iv. 1 point for each of two vocabulary words
 - If you have time in your classroom, this is also a good opportunity for a civil dialogue.

Why didn't my workers want to be rehired?

Warm-Up



- Identify two trends in the graph.
- Why do you think unemployment continued to rise even as COVID-19 case numbers fell?

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Vocabulary Preview and Game

Word	Definition
Incentive	A payoff or reward that encourages a particular behavior
Disincentive	A penalty or punishment that discourages a particular behavior
Financial incentive	A monetary reward to encourage a particular action
Financial disincentive	A monetary punishment to discourage a particular action

Game Directions

The class will be divided into two teams. Each team will pick a captain. The teacher will read examples. The teams will determine if the example creates an incentive or disincentive to work. Only the team captain can answer for the team. The first team to buzz in with the correct answer wins a point. At the end of the game, the team with the most points wins.

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Time Inconsistency Definition and Examples

Time inconsistency: instances where incentives, policies, or behaviors that looked optimal at one time become suboptimal later and are therefore abandoned

Directions: For each of the examples below, identify the short-term and long-term incentives. The first example has been done for you.

Situation	Short-Term Incentive	Long-Term Incentive
A federal government loan from the Paycheck Protection Program allows a spa owner in Washington State to rehire employees that lost their jobs when COVID-19 closures closed the spas.	Hire back employees and reopen business to save jobs	Grow business to repay loan
States waive job-search requirements for unemployment benefits.		
States expand eligibility for unemployment to self-employed workers.		
Congress adds \$600 per week to state unemployment benefits for up to four months.		

Most of the available jobs are in essential industries with higher risks of possible COVID-19 transmission.

Employers are required to save jobs to have loans forgiven.

Additional unemployment benefits are set to expire next month.

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Incentive Excerpts

Directions: You will be assigned one of the excerpts below. In a group, describe how someone in the excerpt was responding predictably to incentives and come up with a policy change that would lead to a better social outcome.

Excerpt A

"Some of her employees had realized that they would be financially better off, at least in the short term, receiving emergency pandemic-related unemployment insurance payments rather than remaining on her company's payroll. Perversely, they were disappointed that her business obtaining the PPP loans meant that they would keep their jobs."

—*Economics in One Virus*, p. 211

Excerpt B

"A low-income worker in Massachusetts previously earning \$535 per week faced a pre-pandemic replacement rate of unemployment insurance benefits to earnings of 48 percent (\$257). Yet during this period of pandemic unemployment insurance, the same worker would obtain benefits worth 160 percent of their pre-recession earnings (\$857)."

—*Economics in One Virus*, p. 213

Excerpt C

“At the time, her federally guaranteed loans under the Paycheck Protection Program would be forgiven only if her business avoided cuts to headcount and wages by June 30. Meanwhile, 75 percent of the loan her business received had to be spent on payroll costs over eight weeks. Her company then had a very strong incentive to rehire or retain workers it would have otherwise laid off or furloughed to ensure that the loan got written off and became a grant.”

—*Economics in One Virus*, pp. 213–214

Excerpt D

“Many of those unemployed would have been aware that benefits were set to expire on July 31. . . . One worker told me that he simply ignored his employers’ calls by turning his phone off for several weeks in May and June, such was the uplift in his income on pandemic-related unemployment insurance benefits. He ultimately decided to take up the offer to return after this time because he recognized the threat that the expanded benefits might expire.”

—*Economics in One Virus*, p. 217

Excerpt E

“You probably missed the story about Brigham Young University–Idaho. There, administrators had to threaten students with suspension from school if they deliberately contracted COVID-19, after evidence that some students were seeking infection so that, having recovered, they could be paid for their plasma, which would contain COVID-19 antibodies that could be used as a treatment.”

—*Economics in One Virus*, pp. 222–223

Excerpt F

“Governor Andrew Cuomo banned bars from opening unless they sold food alongside any drinks sold. Faced with the risk of forgone drinks revenue if customers were deterred by this regulation, bars got innovative. Many introduced menus with tiny food portions, including The Lafayette in Buffalo, which offered ‘A Piece of Meat,’ the ‘Smallest Piece of Cheesecake in Buffalo,’ and ‘Nine French Fries’ all for \$1 each.”

—*Economics in One Virus*, p. 223

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Incentive Excerpts Analysis Questions

Excerpt _____

- Explain the policy referenced in your excerpt.
- What was the policy intended to encourage?
- How did people respond to the policy in ways that the policymakers did not intend?
- How could you write a policy that would better encourage the original, intended outcome?

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Incentive Excerpts

Directions: Read the excerpts below and answer the question at the bottom. Use at least two of the vocabulary words (incentive, disincentive, financial incentive, financial disincentive, or time inconsistency) in your response.

Background: As COVID-19 lockdowns eased and businesses sought to reopen, some politicians and economists disagreed about whether businesses should be held legally and financially liable for illnesses contracted on their premises. The two excerpts below capture two perspectives on this issue.

Business liability should be limited in order to encourage economic activity	Businesses should be held liable for illness in order to encourage risk averse behaviors
<p>"The thinking behind this was that businesses would have a financial disincentive to reopen if they could potentially have been held liable for consumers or workers becoming sick on their premises, something that would be difficult to prove. The risk of liability for someone catching the disease, and the potential for court action and devastating financial consequences, it was thought, would have kept many businesses shuttered."</p> <p>—<i>Economics in One Virus</i>, pp. 222–223</p>	<p>"Given there could have been a financial penalty should a company have been found liable for a COVID-19 case, Wolfers believed businesses would have had strong financial incentives to take precautions—to test employees, ensure regular sanitizing of shared spaces, screen people's body temperatures, or ensure that whatever work could be done from home would have been. The threat of liability would therefore have helped the public health effort."</p> <p>—<i>Economics in One Virus</i>, pp. 224–225</p>

- Should businesses be held legally and financially liable for illnesses that are contracted on their premises? Why or why not? (Use at least two vocabulary words in your answer: incentive, disincentive, financial incentive, financial disincentive, or time inconsistency.)