

# Restarting the economy while saving lives under Covid-19\*

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## Abstract

We provide, calibrate and test a realistic model of the spread of SARS-Cov-2 in an economy with different risks related to age and sectors. The model considers hospital congestion and response of individuals adjusting their behavior to the virus' spread. We measure precisely the size of these effects using real data for Italy on intensive care capacity and mobility decisions; thus our claim is that the tradeoffs we estimate are quantitatively, rather than qualitatively, approximately correct.

We characterize the policies of containment of the epidemic that are efficient with respect to number of fatalities and GDP loss. Prudent policies of gradual return to work may save many lives with limited economic costs, as long as they differentiate by age group and risk sector. More careful behavior of individuals induced by the perceived cost of infection may contribute to further reduce fatalities.

JEL-Code: I12, I18, D6, H84

Keywords: Covid-19, SARS-Cov-2 SEIR model, post lockdown policies.

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# 1 Introduction

The main question all countries are facing throughout the world is how to restart the economy while saving lives in the middle of the Covid-19 pandemic. We present a model and simulations answering this question, and apply them to data from two emblematic Italian regions: Lombardia and Veneto. These contiguous areas in the north of the country were the first in Italy to be hit by the Covid-19 outbreak (at about the same time) but experienced very different evolutions of the infection. While in Lombardia, with a population of about 10 ml, people, 17159 persons died because of Covid-19 between February 24 and October 23, 2020, in Veneto, with a population of 4.9 ml, the same happened to only 2308 persons.<sup>1</sup> We show that these differences are due to factors likely to operate in every country, and are in fact instances of worst and best case scenarios: thus the model is of general interest.

A simulation of the effects of different strategies in these two regions is instructive for a wider audience because Lombardia and Veneto capture well the dichotomy of Covid-19 experiences that is emerging throughout the world, between areas hit very severely and areas hit more mildly by the pandemic. The main factors determining this dichotomy are differences in population density, delays in reacting correctly during the early phase of the infection, and constraints in the number of intensive care places in hospitals (which is shortened to HC in what follows). The simulations we present are based on a reformulation of the *SEIR* model (Allen, 2017) specifically designed to capture these factors.

A second substantial innovation is motivated by the observation that the lethality of Covid-19 increases with age presenting a clear discontinuity at age fifty. As of October 23, 2020, out of more than 36000 fatalities in Italy, only 409 were of subjects younger than 50 and less than 25 of subjects younger than 30. Moreover, the degree of proximity between workers operating in different sectors has been shown to affect the risk of contagion for this virus.<sup>2</sup> Therefore, our model allows for a differentiation of the population by sectors (SEC) and ages (AGE), and thus generalizes the concept of basic reproduction number ( $R_0$ ) to a matrix. Specifically, our SEIR-HC-SEC-AGE model has two sectors characterized respectively by a low and a high risk of infection, which are calibrated on the basis of the information on workers' proximity contained in Barbieri et al. (2020). As for age, we consider 9 brackets, which are calibrated to match the initial distribution of age in the population of the two regions, and that are characterized by age specific labor force participation rates (taken from national statistics) and by age specific lethality, hospitalization and intensive care (IC) rates due to Covid-19 (taken from Ferguson et al., 2020).<sup>3</sup>

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<sup>1</sup>Official data from the Italian "Protezione Civile".

<sup>2</sup>See, for example, Boeri et al. (2020) and Barbieri et al. (2020).

<sup>3</sup>In the Online Appendix we present qualitatively similar results based on the analogous parameters

The conclusion that differentiation by age can help in choosing good policies is obvious. If the aim is to reduce the loss of GDP with a minimum loss of lives, then at any given state of the economy allowing a younger person (for whom the virus is less lethal) to return to work is better than allowing an older one. A glance at the lethality table by age will offer all that is needed to support this conclusion. The benefit of differentiation by risk sector is just as obvious. However, a flight engineer trying to fly a plane will not find the qualitative statement that weight makes the plane fall and lift makes the plane go up very useful: he will need to know the precise quantitative tradeoff. Similarly, the qualitative statement that allowing younger people to return to work is less costly, or its reformulation in an *as if* model capturing the tradeoff, will leave the policy maker equally clueless on what to do.

Instead, our goal is to contrast the economic and public health effects (GDP loss vs. saved lives over a full year) of possible policies to restart the economy that take into account the differences in age specific and sector specific contagion risks. Starting from one extreme with a policy that sends back to work the entire workforce (which we label as policy ALL), the other policies that we study progressively inactivate (i.e. allow only a minimum of the labor force to be active) workers in the high-risk sector, beginning with those belonging to a higher age bracket, until all age brackets and sectors are inactivated (which is the opposite extreme policy, and is labelled as LOCK).

The GDP loss induced by the interaction between the pandemic and the different policies is assumed to be proportional to the number of days in which the policies are in place and to the corresponding fraction of the workforce that is unproductive. In future research we plan to improve on this measure in various ways, particularly with the goal of capturing more long term economic effects of the pandemic. It is likely, however, that the measure of GDP loss we currently use is a lower bound to the total economic cost of the different policies. The number of Covid-19 fatalities associated to the different strategies is predicted by the SEIR-HC-SEC-AGE model.<sup>4</sup>

The trade-off between saved lives and GDP losses that characterizes “age based” and “sector based” strategies is not immediately obvious, and its description is our main contribution. The two extreme policies LOCK and ALL provide useful benchmark against which to evaluate the intermediate ones. We now describe our main results.

Taking the policy LOCK as reference, we see that a sequence of policies of return to work for a large fraction of the labor force are feasible, that have a moderate cost in terms of fatalities, as long as they limit the activity of subjects that face a high risk because of their age or because of the sector in which they operate. While we are well aware that each

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estimated by the US Center for Disease Control (CDC). See [Garg \(2020\)](#).

<sup>4</sup>The code to replicate our simulations and estimates is available from the authors.

single death due to the current epidemic is a tragedy, we are also keenly aware that the social, mental, and even health implications of a prolonged inactivity are also tragic. Thus, we consider the exploration of these combinations an intellectual duty.

Our results indicate that the efficient frontier is markedly convex. In one of the most plausible scenarios that we consider for Lombardia, a 1 percentage point reduction of the GDP loss (about 4 billion Euro) obtained sending back to work only young and low-risk sector workers starting from a complete lockdown (LOCK), generates about 615 additional fatalities on a yearly basis. At the opposite extreme of the frontier, the same reduction of GDP loss obtained with the activation of the oldest workers in risky sectors, i.e. approaching the case of the ALL policy, the number of additional fatalities is more than 8 times higher (5,860). The correspondent numbers for Veneto (where one percentage point of GDP is worth about 1.6 billion Euro) are 60 and 1597, i.e. the second number is about 26 times higher than the first one. Qualitatively similar results emerge from other scenarios.

A different pattern emerges if we allow individuals to take into account the risk of infection and adjust their behavior to reduce this risk, independently of the administrative measures. We frame this hypothesis in a precise model, assuming that the news on the number of fatalities, which are widely available and frequently communicated in the media, offer reliable information on the number of infected. In our effort to obtain a quantitative assessment, we provide a testable model and estimate the size of the effects of these behavioral adjustments using data on mobility for different types of activities provided by Google.<sup>5</sup>

The quantitative effect of allowing for individual behavioral adjustments is substantial, and the consequences for the shape of the trade-off, represented by the Pareto frontier, dramatic: the curve changes from convex to almost linear and flat. This finding hinges on the assumption that such response in the future will follow, for at least one year, the same pattern that we have observed in the past. Whether the assumption of stability in behavioral response is sound is, in our opinion, far from obvious. Behavioral adjustments occurring at the outbreak of the news might themselves be prone to reduction when the epidemic becomes the new normal.

So far we have focused on how the allocation of potential workers between activity and inactivity affects health consequences in the population. There is an additional channel, which does not involve the productive sector. Protecting senior citizens (above the age of 65, in particular) from the spread of infection may not have any effect on the level of productive activity, but certainly has a strong effect on the number of fatalities, because the fatality rate is higher for older individuals. This protection may be in part almost zero-cost

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<sup>5</sup>A first evaluation of the effects of such type of adjustments in behavior has been provided by [Brotherhood et al. \(2020\)](#).

(for example, devoting a fraction of the business hours of commercial activities exclusively to seniors); others may instead induce extra-costs (devoting to seniors part of the public transportation). For others the cost might be substantial (for example, devoting a sector of health and service workers to the care of senior citizens). We focus here only on the trade-off between GDP loss and fatalities induced *directly* by the allocation of individuals to productive activity, leaving the additional channel to future research.

The policies that make a relatively safer return to work possible are a combination of one that has been considered by many government (return to work taking into account the risk specific to each productive sectors) and another one which instead has been totally (and surprisingly) disregarded by the authorities in all countries (differentiation depending on the age of the worker). We think the debate should consider carefully both, and the public should be aware and able to discuss openly both. Since these conclusions are robust to parameters specification, the relative merits of the policies are the same when they are extended to other areas in the world and thus are of immediate interest for an international policy audience.

This paper is obviously related to the large amount of inspiring research that is currently conducted throughout the world on the Covid-19 pandemic<sup>6</sup> and specifically to the literature that has considered the possibility to differentiate containment policies by age.<sup>7</sup> We differ, however, from this literature because we do not aim at suggesting an optimal policy based on some welfare function. Our goal is to measure as precisely as possible, in a specific geographic context, the policy trade off between economic and public health costs of the strategies to deal with the pandemic, so that politicians and the public opinion can make an informed choice. In this respect, the analysis in [Acemoglu et al. \(2020\)](#) is close to ours, but we make an effort to base our analysis on real data for two specific and emblematic geographic contexts. Even if geographically focused, however, our paper offers a more general message which is valid also for other areas and our code can be applied to other contexts with the appropriate corresponding parameterization and data.

The rest of the paper is organized as follows. In [Section 2](#) we outline the basic features of the SEIR-HC-SEC-AGE model. In [Section 3](#) we model the decision process of agents who can take actions that may affect their probability of getting infected and thus the spread of the virus in the population. A detailed description of of the Multi-Risk dimension of the

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<sup>6</sup>Without aiming for an exhaustive review of the literature, some of the most relevant related papers are: [Atkeson \(2020\)](#), [Berger et al. \(2020\)](#), [Durante et al. \(2020\)](#), [Eichenbaum et al. \(2020\)](#), [Fang et al. \(2020\)](#), [Garibaldi et al. \(2020\)](#) [Glover et al. \(2020\)](#), [Greenstone and Nigam \(2020\)](#), [Hall et al. \(2020\)](#) and [Piguillem and Shi \(2020\)](#)

<sup>7</sup>For example: [Acemoglu et al. \(2020\)](#), [Alvarez et al. \(2020\)](#), [Baqae et al. \(2020\)](#), [Brotherhood et al. \(2020\)](#), [Farboodi et al. \(2020\)](#), [Garriga et al.](#), [Gollier \(2020\)](#), [Jones et al. \(2020\)](#), [Kudlyak et al.](#), and [Rampini \(2020\)](#).

model and its construction is provided in Section 4. The epidemiological model dynamics is presented in Section 5. Section 6 adds macroeconomics to the model. Section 7 brings the model to the data and estimates the mobility response of subjects to news about infection, using Google mobility data. Section 8 describes the calibration of the parameters designed to capture the situation of Lombardia and Veneto and to characterize the different policies. Section 9 presents the results, which are discussed in Section 10 together with an analysis of the limits of our simulations.

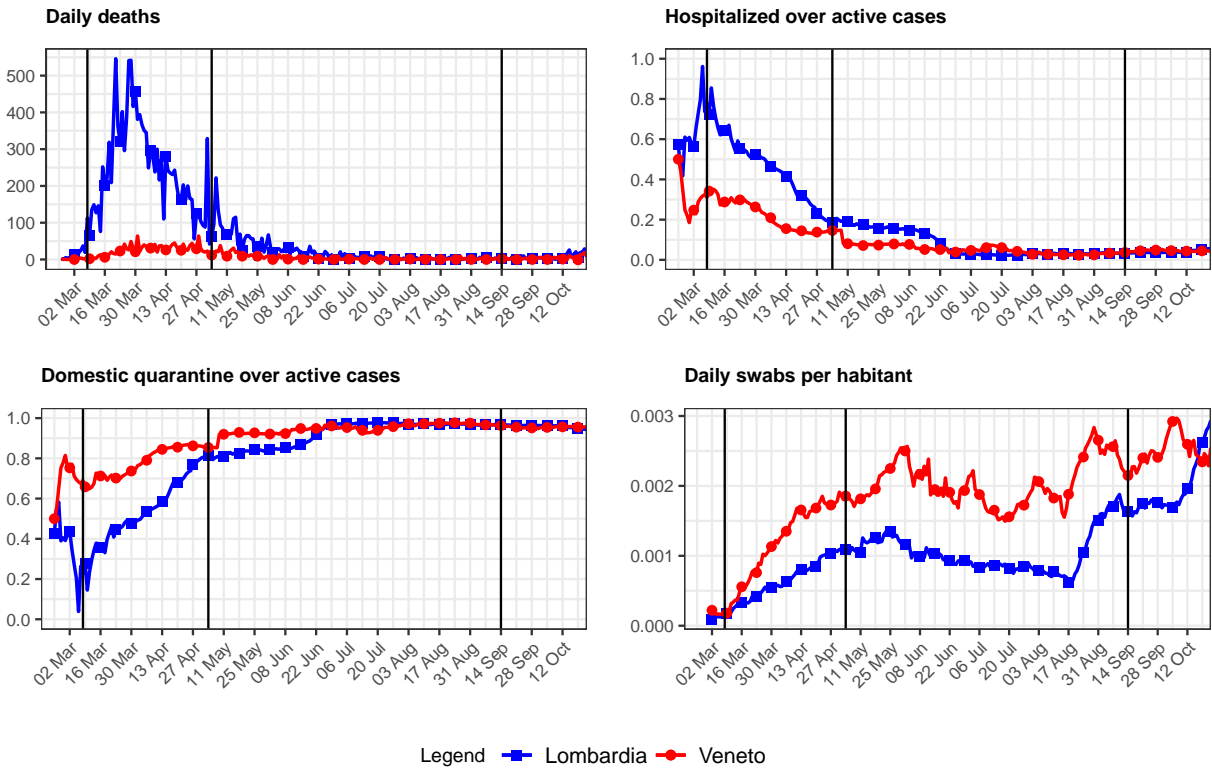
## 2 SEIR-HC-SEC-AGE model

Our objective is to provide a realistic empirical model of the effects of Covid-19 with two main features. First, the capability of replicating the dynamics of the virus. We will take as test two emblematic benchmark cases (Lombardia and Veneto) from the beginning of the pandemic until October 23, 2020. Second, the capability of simulating outcomes of different policies of containment of the epidemic for one year, starting on November 1, 2020, that are efficient with respect to the number of fatalities and to the GDP loss. To this end, we extend the basic SEIR model along many dimensions to the SEIR-HC-SEC-AGE specification whose basic distinctive features are described in this section.

1. **Multi-risk and multi-activity.** The population is divided into 19 groups with different age, sector and age-specific labor force participation, and thus with different probabilities of infection, hospitalization and fatality. A detailed description of these groups is given in Section 4. Denoting these groups with generic terms  $a, b \in \{1, \dots, 19\}$ , the model for the transmission dynamics of the virus classifies individuals as susceptible  $S_t(a)$ , exposed  $E_t(a)$ , infectious  $I_t(a)$ , mildly symptomatic  $MILD_t(a)$ , severely symptomatic  $SEV_t(a)$ , hospitalized with mild symptoms,  $HOSPMILD_t(a)$ , hospitalized with severe symptoms  $HOSP_t(a)$ , hospitalized needing Intensive Care Unit  $HOSPICU_t(a)$ , fatalities  $FAT_t(a)$  and recovered  $REC_t(a)$ . We will use the letters  $S, I$  etc. with no subscript as short for susceptible, infectious and so on. In single agents standard epidemiological model the dynamics of the infection depends on the basic reproduction number. This number can be thought of as the product between the probability with which a meeting of an infectious and a susceptible person results in the susceptible being infected, and the number of meetings that occur between infectious and susceptible in a unit of time. In our multi-agent model the basic reproduction number will be replaced by a basic reproduction matrix.

2. **Intervention Policies and Behavioural Responses.** With the development of the virus, the basic reproduction matrix will evolve to reflect intervention policies and behavioural responses of agents. The basic reproduction matrix depends on the level of activity in each sector as the number of meetings that occur between infectious and susceptible in a unit of time depends on their level of activity. This is developed in Section 4. The virus dynamics will be affected not only by the containment policy adopted by the government and reflected in the choices of Activity Levels but also by the behavioural response of individuals to the development of the virus. This is developed in Section 3.
3. **Time-Varying death probability.** The probability of death is time-varying and it can become higher than the constant CFR (Case Fatality Rate) of COVID-19. The probability of death is modelled to increase progressively with the saturation of hospitals and to reach a critical point when the available supply of intensive care beds is fully saturated.

Figure 1: COVID-19 in Lombardia and Veneto



Note: Daily data from Protezione Civile. The vertical bars indicate the start of the Lockdown (March 8), the start of the Phase 2 (May 4) and the start of the new school year (September 14).

4. **Management of Hospital Flows.** With our specification of the probability of death, management of the hospital flows becomes an important policy to reduce mortality. Extensive testing, early detection of the infectious, their placement in domestic quarantine paired with administering medicines can prevent them to reach the stage of symptoms that need hospitalization. Such policy can therefore avoid the creation of “wartime conditions” in hospitals and the ensuing collapse in the quality of medical services. The data from the Northern Italy regions of Veneto and Lombardia reported in Figure 1 hint at the potential importance of this narrative. The pattern of daily deaths from the end of February 24, 2020, to October 23, 2020 led to a very different outcome with a total count of 17159 fatalities in Lombardia and 2308 in Veneto (population in Lombardia is 10 millions while in Veneto is 4.9 millions). The figures also illustrate that a difference in the intensity of testing adopted in the two regions led to a much more intense use of domestic quarantine in Veneto paired with a strong control on hospitalization at the beginning of the pandemic. The initial intensive use of domestic quarantine by Veneto has not led to a massive increase in hospitalization. Over time, Lombardia has converged to the policy adopted by Veneto which proved more successful in containing the lethality of the disease.
  
5. **Economic Structure.** Finally, we complement the epidemiological framework with a simple economic structure to model production in the two regions. We summarize the economic effects as a function of the fraction of the labor force that is not allowed to work under a given policy. We are fully aware that a complete characterization of the economic costs of the Covid-19 pandemic would require a more sophisticated and detailed dynamic macroeconomic model, which we leave for future extensions of this project.

We now examine these different components in detail.

### 3 Behavioral response

Several activities (shopping, traveling to work, work, time to consume) are possible at each time unit. We are going to examine a generic activity of this type, without distinguishing it in the notation.

We choose the time unit, denoted  $\Delta t$ , to be “short enough” so that a person only meets another person within that time unit. When we re-scale the process and set the time unit to one day, then the number of matches in that longer time unit will be:

$$M = \frac{1}{\Delta t}. \tag{1}$$



Each individual’s value of the activity, indicated by  $V$ , is distributed according to a continuous cumulative distribution function  $F$ , the same for all consumers. We assume that (i) whether the activity occurs or not does not affect the agent’s utility in the next period; (ii) the distribution  $F$  over the value drawn is independent of the health condition of the agent (i.e. on whether he is  $S$ ,  $E$ ,  $I$  or  $REM$ ). We omit time subscripts in this section because they are not necessary in this analysis.

People are randomly matched. These are customers who happen to go to the shop at the same time, friends one meets, co-workers, fellow travelers in the subway and so on. We are interested in the matches in which one of the two individuals is  $I$  and the other is  $S$ . The meeting of an  $I$  and an  $S$  person result in  $S$ -type being infected with probability  $\beta(m)$ , which is influenced by biological factors, seasonal conditions and preventive measures ( $m$ ) taken by the agents ( $m$  is mnemonic for masks).

We have now to analyze how many individuals an active person meets. This follows from the maximization of the individual. He may choose to be *inactive*, and thus get a given fixed value, which we normalize to zero. Or he may choose to be *active* (for example, to go out of the house in pursuit of some activity), and get the value  $V$  drawn, minus the expected cost of the potential infection. The solution of this simple maximization problem is described by a threshold in value space: those with a draw of  $V$  higher than a threshold  $v^*$ , to be determined endogenously, decide to be active. The threshold is endogenous because, of course, the probability of being infected depends on the choice made by individuals like him. Obviously, this behavioral response is a response to the behavior of the others as well as to the policy being implemented at that time. We examine later – see equations (6) and (7) – how different policies affect the response.

**Proposition 1** *Let  $C$  be the cost of being infected for a subject. The choice of activity maximizing utility is determined by a threshold  $v^*$  which solves:*

$$v^* = \frac{I}{N} \beta(m) Pr(V \geq v^*) C. \quad (2)$$

A measure of population density acts as a determinant of the number  $I$  of infectious,<sup>8</sup> but we ignore it in the notation for simplicity although it will be relevant in explaining the different effects of the pandemic between the regions that we consider in the empirical analysis (density is almost 60% higher in Lombardia than in Veneto).

To provide a model for empirical analysis we consider the case in which  $F$  is the uniform distribution on  $[0, \bar{V}]$ , so  $F(x) = \frac{x}{\bar{V}}$ , for  $x \in [0, \bar{V}]$ . If we denote the probability of being

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<sup>8</sup>Garibaldi et al. (2020) note the similarity of this assumption with the one behind the “matching function” of labor models.

infected as

$$p \equiv \frac{I}{N}\beta(m) \quad (3)$$

then

$$v^* = \frac{pC}{\bar{V} + pC}\bar{V} \quad (4)$$

so that substituting the value of  $v^*$  gives:

$$Pr(V \geq v^*) = \frac{\bar{V}}{\bar{V} + pC} \quad (5)$$

In the multisector model we consider later (Section 4), the probability in equation (5) depends on the age and sector group, and we will write  $Pr(V \geq v^*|a)$  to describe the probability for the group  $a$ .

Similar arguments extend to the period after administrative measures (enforced by fines or other penalties) are taken to limit movements (as in lockdown). In this case individuals base their decisions on the expected (taking into account the probability of enforcement) cost of penalties associated for instance with the lockdown, which is independent of the action of others. This is added to the expected cost from becoming infected and therefore also to the right hand side of equation (2), thus increasing the value of  $v^*$  which enters into equation (4). If we call  $K$  the expected non-negative cost of administrative measures to control the spread of the virus, then one can easily find that:

$$v^* = \bar{V} \min \left\{ \frac{pC + K}{pC + \bar{V}}, 1 \right\} \quad (6)$$

and therefore:

$$P(V \geq v^*) = \max \left\{ \frac{\bar{V} - K}{pC + \bar{V}}, 0 \right\}. \quad (7)$$

We provide estimates of this probability in Section 7.

## 4 Multi-Risk model

We now present the detailed description of the groups introduced in Section 2. In our model the population is divided into 9 age-brackets. Each age bracket between 20 and 69 years of age is split into three separate groups. The first two groups include individuals who work respectively in the low-risk or in the high-risk sectors; the third and last group include individuals in working age that are not part of the labor force. Thus we have: 5 age groups of active in the low-risk sector, 5 age groups of active in the high-risk sector, and 5 age groups of inactive. In addition to these 15 groups there are two age groups of inactive under 20 and

2 age groups of inactive over 69. The resulting 19 groups constitute the set  $\{1, 2, \dots, 19\}$ , with generic term  $a, b$ , that we have already introduced. Workers correspond to the elements  $\{3, \dots, 12\}$  with  $\{3, \dots, 7\}$  in the low-risk sector and  $\{8, \dots, 12\}$  in the high-risk sector. The set  $\{13, \dots, 17\}$  indicates the inactive groups in the five active age brackets. The number of age groups of workers is  $L = 5$ , and so  $3L = 15$  is the number of classes of workers as distinct by age, risk sector and activation.

In this framework the basic reproduction number of single-agent standard epidemiological models will be replaced by a matrix, with entries that differ among the 19 groups. For workers, this number may depend on the level of activity. For example, a worker in the high-risk sector does not infect many people if he is not active. To model the effects of policies that restrict the access to work of particular categories of workers we specify how each entry in the basic reproduction matrix depends on the level of activity.

We will first focus on the sub-matrix defining the reproduction rates within the workforce, that is the sub-matrix that describes how many infected workers of class  $b$  are induced by workers of type  $a$ ; here  $a$  and  $b$  are generic elements of the set of workers. We denote the level of activity as  $\alpha : \{3, \dots, 17\} \rightarrow [0, 1]$ , with  $\alpha(a)$  indicating the level of activity of group  $a$ : for example,  $\alpha(9) = 0.5$  indicates that half of the individuals of age 30 to 39 in the high-risk sector are active. We denote  $\alpha_{min}$  the minimum level of activity of each active class, and with  $\mathbf{1}$ , a vector of 1's, the vector of activity corresponding to normal conditions.  $Iso$  is a fixed number (independent of the group); intuitively, this describes the number of infected when a person is isolated. Thus we define the Basic Reproduction Matrix ( $BRM$ ) at level  $\alpha$  of activity, for every  $a$  and  $b$  in the set of workers:

$$R(a, b; \alpha) = R(a, b; \mathbf{1})\alpha(a)\alpha(b) + Iso(1 - \alpha(a)\alpha(b)) \quad (8)$$

To simplify the description of the  $BRM$ , we denote  $r(a)$  the (high, low or inactive) risk sector of class  $a$ ; for instance  $r(3) = Low$ ,  $r(10) = High$ ; and we introduce two numbers,  $Risk(r)$  for  $r \in Low, High$  to indicate the level of risk (in number of infected). We assume:

1.  $R(a, b; \mathbf{1}) = Risk(r(a))$  if  $r(a) = r(b)$ ;
2.  $R(a, b; \mathbf{1}) = Tr$  if  $r(a) \neq r(b)$ .

The first condition requires that the BRM of  $a$  on  $b$  when both are active and in the same sector only depends on the sector (and not on the age of  $a$  and  $b$ ): so  $Risk(L)$  for the low-risk sector and  $Risk(H)$  for the high-risk sector. The second condition requires the value to be the same for any two active workers who are working in different sectors.  $Tr$  is suggestive of the means of transportation that they share when going to work even if the do not affect each other during work.

The value of  $\alpha$  for the inactive is constrained to reflect the inactivity condition:

$$\text{for all } a \in \{13, \dots, 17\}, \alpha(a) = 0. \quad (9)$$

In view of the constraint (9), in the description of the calibration of parameters and policies we focus on the  $2L$  levels of activity of the workforce. The reduction in activation of agents during lockdown is modeled by choosing an appropriate level of minimum activity, which reflects institutional constraints.

We then assume that the values of the reproduction matrix for the inactive workers is equal to a common value:

$$Risk(In) = Iso \quad (10)$$

The description of the *BRM* is completed by considering the four non-working groups. For the first two age groups and the last two age groups we have, for all  $b$ ,  $R(1, b; \mathbf{1}) = R(2, b; \mathbf{1}) = R(18, b; \mathbf{1}) = R(19, b; \mathbf{1}) = Iso$ , with two exceptions: before the lockdown and after Phase II we set  $R(1, 1; \mathbf{1}) = R(2, 2; \mathbf{1}) = Risk(High)$ . The parameters we have introduced are collected into a vector  $\rho \equiv (Risk(L), Risk(H), Risk(In), Tr, Iso)$ .

Given the parameters' restrictions and the model, we calibrate parameters to match the number of fatalities in a given region (for instance, Lombardia or Veneto, as described in Section 8).

## 5 Epidemiological model dynamics

The next step in the description of our model is the presentation of the epidemiological model dynamics, to which this section is devoted.

### The Dynamics of Susceptible and Exposed

Infectious do not initially feel symptoms:  $T_{inc}$  is the average number of days of incubation before showing symptoms. They then spread the virus for a period of  $T_{inf}$  days. The number of susceptible that each infectious infect at time  $t$ ,  $R(a, b; \alpha)$  depends on the activation policy for each sector of the working population, described by  $\alpha$ , and on  $\beta(m_t)$ . This probability may evolve over time, as it is affected by several factors: precautionary measures, such as wearing masks, changes in the virus aggressiveness, and on the probabilities with which susceptibles and infectious agents are active. Note that what matters for the virus dynamics is the product of such probabilities. These probabilities reflect both the average response of agents to policies and their behavioural response to the spreading of the virus and they vary over time.

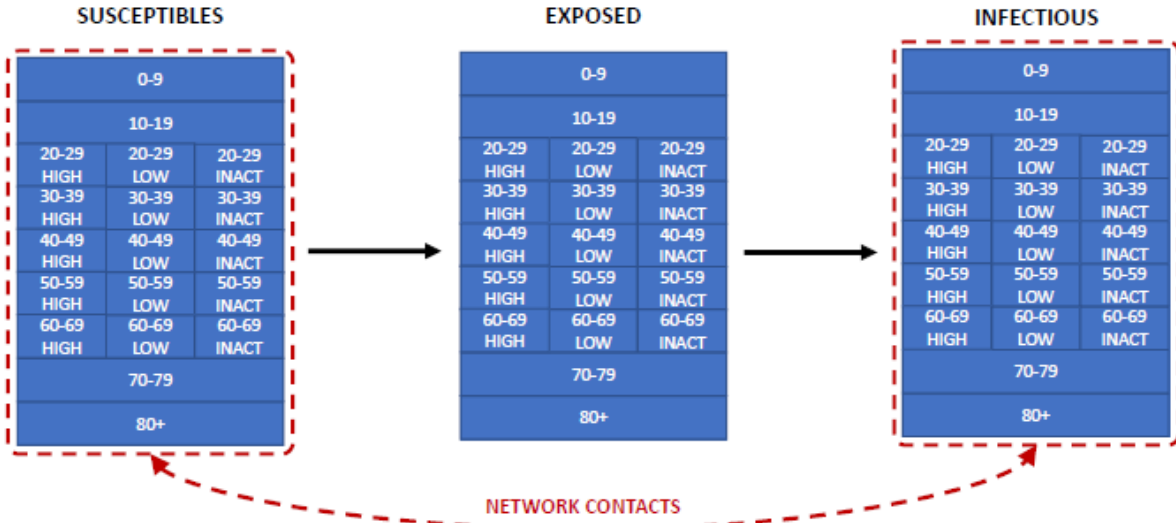
With this notation, the core equations describing the dynamics of the virus for Susceptible and Exposed are, for each  $a$  in each of our 19 groups of agents:

$$\Delta S_t(a) = -\frac{1}{T_{Inf}} \frac{\beta(m_{t-1})}{\beta(m_0)} \sum_{b \in A} \frac{I_{t-1}(b) Pr(V_t \geq v_t^* | b)}{N_{t-1}} R(b, a; \alpha) S_{t-1}(a) Pr(V_t \geq v_t^* | a)$$

$$\Delta E_t(a) = -\Delta S_t(a) - \frac{1}{T_{Inc}} E_{t-1}(a)$$

Figure 2 illustrates the interaction between Susceptible and Exposed in the model. In this section we describe the model dynamics only by reporting the main equations. The full specification of the model along with its full graphical representation are reported and illustrated in details in the [Online Appendix](#). It is worth noting that the specification of the time-varying component of the probability of death could be enriched to include the effect of cures, in addition to the vaccine, that are effective in reducing the mortality of the disease.

Figure 2: Flowchart of Multiple-Risk SEIR-HC-SEC-AGE Model



Note: Interactions between Susceptible and Infectious in different groups.

### From Infectious to Mild and Severe

After a period  $T_{inc}$  infectious suffer symptoms, that can be mild or severe. Severe patients (SEV) never revert to a state of MILD. MILD patients do not show symptoms initially, but without proper medical care may turn into Severe. This process occurs after  $T_{inf}$  days,

in which both infected and infectious have very mild symptoms, and thus do not avoid contacts. Within this framework, we introduce testing, which leads to domestic quarantine of the infectious with mild symptoms. Domestic quarantine has two effects. First it reduces the spread of the virus by reducing the number of contacts in which some infectious agents are allowed to interact with susceptible agents. Second, paired with pharmacological treatment, it can stop patients from reaching a stage requiring hospitalization.

To sum up, the Exposed enter the compartment of the infectious to exit as those with mild symptoms,  $MILLD_t(a)$  and/or those with severe symptoms,  $SEV_t(a)$ . The allocation to these groups is controlled by two probabilities:  $p^{mild}(a)$  and  $(1 - p^{mild}(a))$ . Testing allows to detect a share  $\delta$  of those destined to become MILD; they thus become detected,  $MILLD_t^D(a)$  while  $(1 - \delta)$  become undetected,  $MILLD_t^U(a)$ . Detection and associated medical care reduces the length of the period in which agents are infectious from  $T_{inf}$  to  $T_{inf_0} < T_{inf}$ . The same applies to the infectious who are destined to become Severe. As a consequence of the severity of symptoms, there are no Severe undetected after  $T_{inf}$  days in which they are virtually asymptomatic.

### **Hospitalization, ICU needs and endogenous mortality**

The mild infected either recover – after periods of duration respectively of  $T_{srec,D}$  and  $(T_{srec,U})$  days depending on whether they are detected or not – or their condition becomes severe and they require hospitalization, after a period of duration  $T_{shosp,D}$  ( $T_{shosp,U}$ ) days, again depending on detection. The probability of becoming severe is higher for the undetected than for the detected:  $p^{M2Sev,U}(a) > p^{M2Sev,D}(a)$ . With testing and early detection, patients are cared at home and hospitals congestion is reduced. MILD patients who become severe and are hospitalized recover after a period of  $(T_{shd,U} - T_{shosp,U})$  days. All severe patients become hospitalized after  $T_{shosp}$  days. Severe hospitalized either recover after  $(T_{shd,U} - T_{shosp,U})$  days with probability  $p^{ic}(a)$  or they worsen with probability  $(1 - p^{ic}(a))$  and require intensive care after  $T_{hosp-ic}$  days. Patients needing ICU may die or recover. When ICU is available and there is no hospital congestion mortality is determined by the CFR,  $p^{fat}(a)$ . However, mortality in ICU increases with hospital congestion. This increase is modelled by a logistic function of total hospitalization. The parameter  $k$  in the logistic is calibrated in such a way that the endogenous mortality probability is zero under normal conditions and it increases with hospital saturation. When ICU is fully saturated, mortality explodes as all patients in need of ICU who do not find availability succumb. Those patients in ICU who recover, leave ICU after  $(T_{shd} - T_{hosp-ic})$ . Those who do not recover die after  $(T_{sd} - T_{hosp-ic})$ . Those who need ICU and do not find it available, die immediately.

## Recoveries and Fatalities

At the end of each day the population decreases because of fatalities, while the stock of recovered grows by the amount of those who survive having had mild or severe symptoms, with or without the need of IC. The cycle starts again in the next day.

## 6 Adding Macroeconomics to the model

For given demographic and epidemiological parameters, the SEIR-HC-SEC-AGE model described in the previous section produces a set of public health effects of Covid-19 that depend on the behavioral response and on the age brackets and sectors that are allowed to go back to work according to the policy that the authority will decide to implement. Our goal is to compare public health effects and economic effects of different possible policies.

A policy  $\pi$  is formally defined as a vector with ten elements, each one corresponding to one of the five potentially active age brackets in each of the two sectors. Each element of this vector specifies the fraction of the workforce that is allowed to go back to work in the corresponding age bracket/sector. Table 1 describes five of these policies in which we are specifically interested.

Table 1: A set of possible post lock down policies

Policy	Low-risk sector Age brackets					High-risk sector Age brackets				
	20-29	30-39	40-49	50-59	60-65	20-29	30-39	40-49	50-59	60-65
$\pi = \text{LOCK}$	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
$\pi = \text{SEC}$	1	1	1	1	1	0.6	0.6	0.6	0.6	0.6
$\pi = \text{AGE}$	1	1	1	0.6	0.6	1	1	1	0.6	0.6
$\pi = \text{AGE\_SEC}$	1	1	1	0.6	0.6	1	0.6	0.6	0.6	0.6
$\pi = \text{ALL}$	1	1	1	1	1	1	1	1	1	1

Note: In this table, an entry equal to 1 (0.6) means that the entire (60% of the) labor force of the correspondent age bracket and sector is activated.

Defining with  $t^*$  the day (November 1, 2020) in which we begin the one-year period of simulation of the effects of the different policies, Policy “LOCK” is defined as starting on  $t^*$  a lockdown with the minimum set of workers that were employed during the March 2020 lockdown, which is on average equal to about 60% of the labor force according to Barbieri et al. (2020). Policy “SEC” is based on sending back to work after  $t^*$  all the labor force of the low-risk sector, and only the strictly needed minimum in the high risk sector, which incidentally includes health and education workers according to Barbieri et al. (2020). Policy “AGE” uses only age as the criterion to decide who is allowed to resume activities after  $t^*$ : under this policy all workers between 20 and 49 years of age go back to work independently

of the sector, while only 60% of the older workers is allowed to be productive in both sectors. Policy “SEC\_AGE” is representative of what a mixed policy could look like, using both the age and the sector criteria: all workers under 50 in the low-risk sector and under 30 in the high-risk sector resume activities, while 40% of the older workers in all sectors has to stay home. Finally, Policy “ALL” sends back to work all those who were working before the Covid-19 outbreak. Note that schools, even if they are part of the risky sector, are assumed to reopen with at least the minimum set of workers allowed by each policy. Of course, many more policies can be defined in a similar way, but these are the emblematic ones in which we are interested. Our framework could be easily adjusted to consider also policies differentiated by geographic area.

Using the SEIR-HC-SEC-AGE model described in previous sections we can associate to every policy  $\pi$  and region  $r$  its public health effects that we summarize with the total number of fatalities in the first year after  $t^*$ :

$$TOT\_FAT_{r,\pi} = \sum_{t=t^*}^{t^*+365} REM\_FAT_{t,\pi} \quad (11)$$

As for the economic effects, we summarize them as a function of the fraction of the labor force that is not allowed to work under a given policy  $\pi$ . We are fully aware that a complete characterization of the economic costs of the Covid-19 pandemic would require a more sophisticated and detailed dynamic macroeconomic model, which we leave for future extensions of this project. For the time being, given the urgency of comparing the economic effects of different post lockdown strategies, we believe that estimating these consequences as a function of the fraction of the labor force that cannot work is sufficiently informative at least about the orders of magnitude. Specifically we assume that the GDP of region  $r$ , denoted as  $\mathbb{Y}_r$ , is a Cobb Douglas function of labor  $\mathbb{L}_r$  and capital  $\mathbb{K}_r$ ,

$$\mathbb{Y}_r = A\mathbb{K}_r^{1-\eta}\mathbb{L}_r^\eta,$$

so that the percent GDP change induced, ceteris paribus, by a variation  $d\mathbb{L}_r$  of the employed labor force is

$$\Delta\mathbb{Y}_r \approx \frac{d\mathbb{Y}_r}{\mathbb{Y}_r} = \eta \frac{d\mathbb{L}_r}{\mathbb{L}_r} \quad (12)$$

which is a negative number if  $d\mathbb{L}_r < 0$ . Each post lockdown policy  $\pi$  will produce a decline  $d\mathbb{L}_{r,\pi}$  of the employed labor force and thus a corresponding percent GDP loss  $\Delta\mathbb{Y}_{r,p}$  according to equation (12). This GDP loss is the measure of the economic effects of the interaction between policy  $\pi$  and Covid-19 that we consider.

Within this framework we aim at making two contributions. First, we want to character-



ize an efficient set of policies. Second, we want to compare between themselves and against the efficient frontier the five stereotypical post lockdown policies described in Table 1.

## 7 Estimation of the behavioral response

Moving to the data, we next provide estimates of the mobility model described in Section 3 for the two Italian regions that we consider. Since time of observation is now crucial, differently than in Section 3 we re-introduce the time subscript. We omit an indicator for the type of activity, which is not necessary.

Each individual  $i$  has to decide whether to perform an activity. She draws utility  $V_i$  from a uniform distribution  $F$  on  $[0, \bar{V}]$ . If  $V_i \geq v_{d,t}^*$ , she becomes active. Note that  $v_{d,t}^*$  depends on the day of the week  $d$  and on the calendar time  $t$  through the policies and the news. Denote as  $G_{d,t}$  the total number of activity-driven moves of a given type performed by subjects in a population of size  $N$ ; we will estimate this value using Google mobility data, hence the  $G$  label. There are of course a variety of types of moves and we rely on three emblematic categories for which Google provides data from various areas around the world and specifically for Lombardia and Veneto during the pandemic:<sup>9</sup> (i) moves to a workplace; (ii) moves to public transport hubs such as subway, bus, and train stations; (iii) moves to grocery markets, food warehouses, farmers markets, specialty food shops, drug stores, and pharmacies.

Google distinguishes between a reference time  $t_0$  corresponding to the five weeks that go from January 3 to February 6, 2020, in which mobility decisions were taken by agents with no Covid-19 concern, and the running time  $t$  from February 25 onward in which mobility decisions are taken instead in the presences of concerns about the Covid-19 epidemic. Assuming that the random variables for each individual are independent, the variable underlying the Google measure of mobility, denoted by  $G_{d,t}$ , is the number of individuals with value  $V_i$  larger than  $v_{d,t}^*$ , and who are therefore active. Note that  $G_{d,t}$  depends on  $d$  and  $t$  through  $v_{d,t}^*$ . The measure of mobility provided by Google for each type of move is defined by:

$$g_{d,t} = \frac{G_{d,t}}{\text{median}(G_{d,t_0})} - 1 \quad (13)$$

which is the relative change in the number of moves of a given type between calendar day  $t$  and the same day-of-the-week  $d$  during the reference period  $t_0$ . Descriptive statistics for

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<sup>9</sup>These data and the related documentation can be found at this link: <https://www.google.com/covid19/mobility/>.

these indicators are reported in Table 2.

Table 2: Descriptive statistics for the Google mobility measures

	Mean	Std. Dev.	Min	Max
<i>Lombardia</i>				
Workplace moves	-.37	.21	-.92	.11
Transportation moves	-.49	.21	-.92	.12
Grocery moves	-.23	.18	-.95	.03
<i>Veneto</i>				
Workplace moves	-.31	.20	-.91	.06
Transportation moves	-.39	.25	-.92	.06
Grocery moves	-.17	.22	-.96	.17

Note: the table reports descriptive statistics for the three Google mobility measures that we consider, over the period of 242 days going from February 25, 2020 until the data are available. For each type of move, the measure is the change of the number of moves on a given day relative to the same day-of-the-week in the reference period defined as January, 6 – February, 3, 2020.

The two panels of Figure 3 display, separately for Lombardia and Veneto, the evolution of fatalities and of the average  $g_{d,t}$  for the three types of moves from February 25, 2020, until the data are available. Note that mobility first declined substantially in the last week of February, before the Lockdown, immediately after the first red zone in the city of Codogno was created in Italy and the outbreak of the pandemic became the main news in the media. Mobility fell again immediately after the Lockdown and started to raise back after fatalities levelled off at the beginning of April. During the summer mobility went back to the levels of the reference period while fatalities have declined to almost zero.

Since the median of a binomial random variable is equal to one of the two integers defining the interval containing the mean, we can take:

$$\text{median}(G_{d,t_0}) \sim ((1 - F(v_{d,t_0}^*)) N$$

where  $\sim$  in this case indicates that the difference between the two terms is less than  $1/N$ ; and therefore:

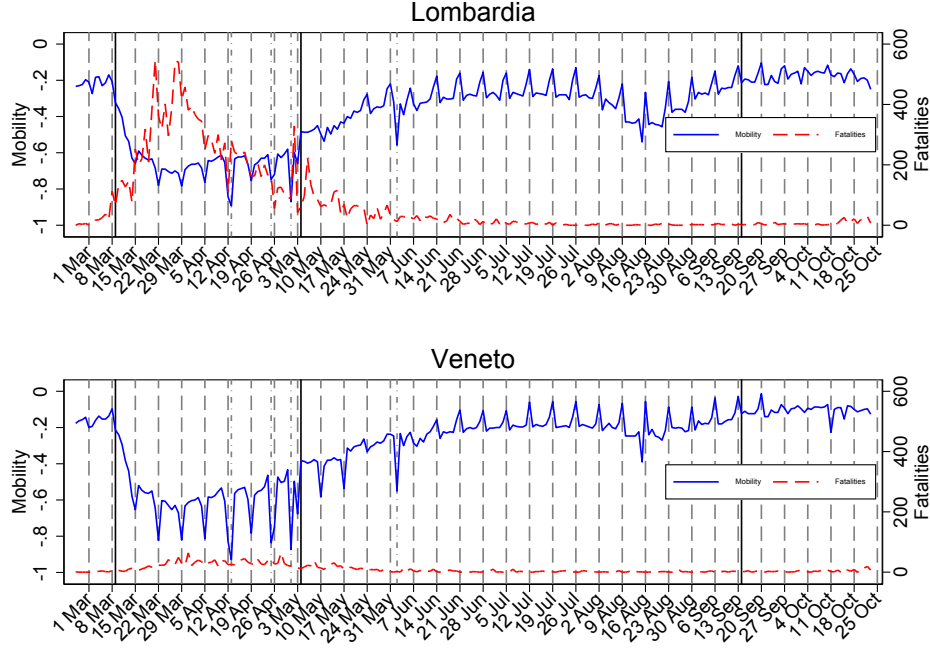
$$g_{d,t} = \frac{v_{d,t_0}^* - v_{d,t}^*}{\bar{V} - v_{d,t_0}^*}$$

which gives the Google measure of mobility  $g_{d,t}$  as a linear function of  $v_{d,t}^*$ , respectively for each type of move. Remember from Section 3 that

$$v^* = \bar{V} \min \left\{ \frac{pC + K}{pC + \bar{V}}, 1 \right\} = \bar{V} \frac{pC + K}{pC + \bar{V}} \quad (14)$$

where the second equality follows if we make the reasonable assumption that  $K$  is smaller than  $\bar{V}$  (and in fact we never observe a complete lack of movement). Therefore  $g_{d,t}$  can be

Figure 3: Evolution of mobility during the pandemic



Note: The figure displays the daily average of the Google mobility measure for workplaces, transit and grocery. For each type of mobility, the measure is the change of the number of moves on a given day relative to the same day-of-the-week in the reference period defined as January, 6 – February, 3, 2020. Grey dashed vertical bars denote Sundays. The three black solid bars denote, respectively, the beginning of the Lockdown on March 8, 2020, the beginning of the Phase 2 on May 4, and the school reopening on September 14.

written as:

$$g_{d,t} = \frac{v_{d,t}^*}{\bar{V} - v_{d,t}^*} - \frac{\bar{V}}{\bar{V} - v_{d,t}^*} \frac{pC + K_t}{pC + \bar{V}}$$

Recall from equation (3) that  $p \equiv \frac{I_t \beta(m_t)}{N}$  is the probability of being infected. To capture the dependence of the function  $\beta$  on seasonal determinants which affect the aggressiveness of the virus as well as the attention of subjects in using preventive measures against contagion like masks, we assume that

$$\frac{N}{C\beta(m_t)} \equiv 1 + \psi * TEMP_t \tag{15}$$

where  $TEMP_t$  is the average temperature in the month of day  $t$  minus the average temperature in the reference period between January 6 and February 3, 2020. Therefore  $g_{d,t}$  can be written as a non-linear function of the number of infectious  $I_t$ , of the policy parameters  $K_t$ ,

of the upper bound of the value of mobility, denoted  $\bar{V}$ , and of the temperature  $TEMP_t$ :<sup>10</sup>

$$g_{d,t} = \frac{v_{d,t_0}^*}{\bar{V} - v_{d,t_0}^*} - \frac{\bar{V}}{\bar{V} - v_{d,t_0}^*} \frac{I_t + K_t (1 + \psi * TEMP_t)}{I_t + \bar{V} (1 + \psi * TEMP_t)} \quad (16)$$

The parameter  $\psi$  measuring the effect of temperature on the probability of infection has in principle an ambiguous sign since the summer may have reduced the aggressiveness of the virus but also the attention of subjects in avoiding contagion.

During the pandemic, precise information on the number of infectious was not available in Italy (as well as elsewhere) for two reasons. First, testing was not conducted massively and randomly. Second, asymptomatic infectious subjects could not be detected immediately after contagion, even with massive and random testing. Fatalities due to Covid-19 have instead been measured more precisely during the pandemic and were announced by the media on a daily basis with great emphasis. To estimate equation (16) we therefore assume that during the pandemic subjects were taking the daily number of fatalities as an indirect proxy of the number of infectious  $I_t$ .<sup>11</sup>

Table 3 reports non-linear least square estimates of equation (16) for the grocery measure that we will use in our simulations of Section 9 and for the average of the three measures that we will use in Figure 4. In the simulations we use the estimates for grocery, because this is a type of mobility induced by a primary need (nutrition) that is barely affected by the policy in place (one has to eat also during the lockdown) and by whether a subject is affected by the specific activation policy that we want to simulate (both a subject allowed to work and one forced to be inactive have to eat). Therefore, it is the measure of mobility, among the ones for which we have data, that can better describe the free behavioural response of subjects as a function of news about fatalities.

The first row of the Table shows that the term  $\frac{v_{d,t_0}^*}{\bar{V} - v_{d,t_0}^*}$  is estimated to be small and not distinguishable from 0 in the case of grocery. This finding derives from the fact that the probability of moving in a unit of time was on average relatively higher in the reference period before the pandemic particularly for the case of more necessary moves like those for grocery. Consistently with this estimate, the term  $-\frac{\bar{V}}{\bar{V} - v_{d,t_0}^*}$  is found to approach  $-1$  and becomes indistinguishable from  $-1$  in the case of grocery (second row).

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<sup>10</sup>Specifically,  $K_t$  is a set of two dummies ( Lock and Phase2, multiplied by their respective coefficients) respectively equal to 1 during the Lockdown and the Phase 2, and equal to 0 otherwise. Similarly,  $\bar{V}$  is a constant plus a set of dummies for Lombardia, Sundays and festivities, which are assumed to change the upper bound of the value of mobility. Moreover,  $\frac{v_{d,t_0}^*}{\bar{V} - v_{d,t_0}^*}$  and  $\frac{\bar{V}}{\bar{V} - v_{d,t_0}^*}$  are also parameters to be estimated.

<sup>11</sup>A drawback of this assumption is that fatalities in a given day reflect the number of infectious 15-20 days before.

Table 3: Non-linear least square estimates of behavioural responses

	Grocery	Average
$\frac{v_{d,t_0}^*}{\bar{V}-v_{d,t_0}^*}$	-0.02 (0.02)	-0.25*** (0.01)
$-\frac{\bar{V}}{\bar{V}-v_{d,t_0}^*}$	-0.84*** (0.14)	-0.66*** (0.08)
$\psi$	-0.04*** (0.00)	-0.01 (0.01)
$K_t \approx \text{Lockdown}$	199.87*** (55.39)	25.75** (11.02)
$K_t \approx \text{Phase2}$	55.36*** (19.04)	-11.88** (4.85)
$\bar{V}$	725.65*** (255.45)	97.58** (41.39)
$\Delta\bar{V}$ for Lombardia	85.28* (50.60)	139.18** (58.40)
$\Delta\bar{V}$ for Sundays	-485.63*** (163.47)	-44.60** (18.11)
$\Delta\bar{V}$ for Easter	-90.36** (37.63)	-30.02** (13.13)
$\Delta\bar{V}$ for April 25	-539.82*** (175.77)	-63.51** (25.56)
$\Delta\bar{V}$ for May 1	-547.04*** (181.78)	-70.66** (27.36)
$\Delta\bar{V}$ for June 2	-608.07*** (212.62)	-119.13** (51.54)
Observations	484	484
Adj R-squared	0.69	0.78

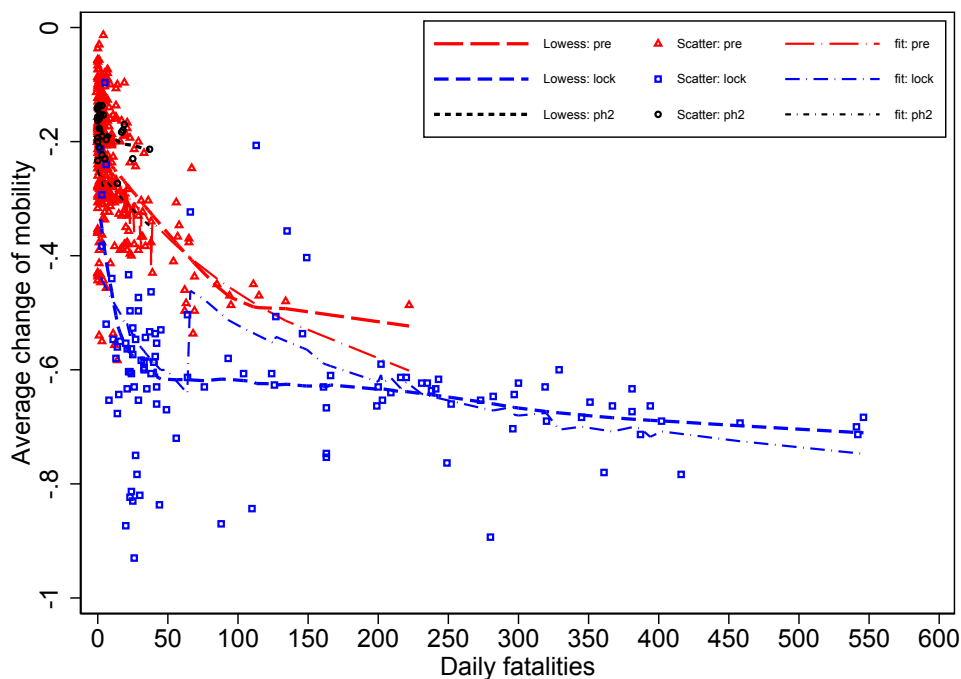
Note: the table reports non-linear least square estimates of equation (16), using daily information on Google mobility measures and official figures on fatalities for Lombardia and Veneto from February 25, 2020 until October 23, 2020. For each type of mobility, the measure is the change of the number of moves on a given day relative to the same day-of-the-week in the reference period defined as January, 6 – February, 3, 2020. Lockdown and Phase2 are, respectively, dummies for the period between March 8 and May 3, 2020 and the period between May 4 and October 23, 2020. April 25, May 1 and June 2 celebrate, respectively, the end of WW2, the labor day and the beginning of the Italian Republic. Temperature data are taken from the information for Italian cities downloadable at [meteo.it](http://meteo.it), using Milano and Verona as references respectively for Lombardia and Veneto.

In the third row, temperature is estimated to decrease the probability of infection (and significantly in the specific case of grocery), suggesting that the effect of heat on the aggressiveness of the virus has prevailed over the effect on the attention in wearing masks

The fourth and fifth rows report estimates of the dummies capturing  $K_t$ , i.e. the severity of the restrictions imposed by the government during the Lockdown and the Phase 2 respectively. The estimates suggest that restrictions were lifted substantially during Phase 2 with respect to the Lockdown.

In the sixth row, in line with the assumptions of our model,  $\bar{V}$  is estimated to be higher than  $K_t$  for both the Lockdown and Phase2. The ranking of these three estimates is a central result of this estimation exercise and captures the effect of the policies with respect to normal times. This result is better shown in Figure 4 which is based on the estimates in the last column of Table 3 for the average of the three mobility measures. The figure displays the scatter plot of daily fatalities and average mobility. The different markers of the scatter plot identify the three periods for which we have data: Pre-lockdown, Lockdown and Phase 2. The figure also plots predictions from locally weighted regressions as well as predictions based on the estimates in column 2 of Table 3.

Figure 4: Behavioural responses to news and policies



Note: the figure displays the scatter plot of daily fatalities and the average of the Google mobility measures for workplace, transportation and grocery. For each type of mobility, the measure is the change of the number of moves on a given day relative to the same day-of-the-week in the reference period defined as January, 6 – February, 3, 2020. The different markers of the scatter plot identify the three periods for which we have data: Pre-lockdown, Lockdown and Phase2. The figure also plots predictions from locally weighted regressions obtained with the “lowess” Stata command (dashed lines; bandwidth=0.8) as well as the predicted values of obtained with the non-linear least square estimates for working days reported in column 4 of Table 3 (dashed-dotted lines).

*Within each* of the three phases we cannot reject that the relationship between mobility and daily fatalities is negative and convex as predicted by the model. This negative and convex relationship within each phase is the behavioural response of subjects to the variation of the contagion risk, in the absence of policies.<sup>12</sup>

<sup>12</sup>Cochrane (2020) for example states that, as a consequence of the omission of this response, “the SIR

The parallel downward shift between the circles and the squares is the effect of the Lockdown, which has reduced mobility for any level of fatalities. The upward shift from the squares to the triangles is instead the effect of the softening of restrictions during the Phase 2 with respect to the Lockdown. While it is evident that policies were effective, this Figure clearly shows that the hypothesis of an endogenous response to the number of infectious cannot be dismissed and it is quantitatively important. Of course, the short time horizon on which these estimates are computed does not guarantee that in the long run this behavioural effect would maintain the same intensity, as individuals may become used to the presence of Covid-19 and less responsive to news related to the effects of the disease.

Coming back to Table 3, the remaining rows of the table show estimates of how  $\bar{V}$  changes in Lombardia with respect to Veneto and on holidays with respect to working days. Ceteris paribus, the utility of moving is higher in Lombardia, leading to a slightly smaller reduction of mobility in this region with respect to the reference period. As for holidays, as expected given Figure 3, they all tend to reduce mobility of the kind considered here.

## 8 Calibration

The calibration of the SEIR-HC-SEC-AGE model requires giving values to different sets of parameters that are described in this section. The relevant dates for the simulation are described in Table 4.

Table 4: Relevant dates for the simulation

	Observed Past				Simulated Future		
	Appearance of the virus	Beginning of observed data	Beginning of the lock down	Start of Phase 2	Start of new school year	Start of Simulation $t^*$	End of simulation $t^* + 364$
Date	January 1 2020	February 24 2020	March 8 2020	May 4 2020	September 14 2020	November 1 2020	October 31 2021

We assume that in both region the virus SARS-Cov-2 arrived at the beginning of 2020 so that the first infectious subjects is observed on January 1, 2020. The available data on the diffusion of Covid-19 in Italy, published by the Protezione Civile, are available from February 24, 2020 and are continuously updated.<sup>13</sup> The first lockdown has been introduced model has been completely and totally wrong”. *Durante et al. (2020)* also find that after the virus outbreak mobility declined in Italy, but significantly more in areas with higher civic capital, both before and after a mandatory national lockdown. Civic capital is however likely to be irrelevant for our analysis since all available measures suggest the absence of significant differences in this variable between Lombardia and Veneto.

<sup>13</sup>The data can be downloaded from <https://github.com/pcm-dpc/COVID-19>.

by the Italian government on March 8, 2020.

The government has modified the lockdown policy starting with a partial release of the measures, the so-called Phase 2, on May 4, 2020. We simulate the effects of hypothetical policies starting from November 1, 2020. We end the simulation after one year, on October 31, 2021.

Table 5: Fraction of the population and labor force participation in each age bracket

	Age brackets								
	0-9	10-19	20-29	30-39	40-49	50-59	60-69	70-79	80+
<i>Lombardia</i>									
Population	0.088	0.094	0.098	0.118	0.158	0.156	0.118	0.099	0.071
Participation			0.494	0.771	0.832	0.804	0.235		
<i>Veneto</i>									
Population	0.085	0.096	0.098	0.112	0.156	0.161	0.121	0.100	0.071
Participation			0.497	0.751	0.826	0.794	0.236		

Note: The table reports the fraction of the population in each age bracket and the labor force participation rates for the brackets between age 20 and age 69 in Lombardia and Veneto. The SEIR-HC-SEC-AGE assumes, in line with the available evidence, no significant labor force participation in the other age brackets. The total population is 10 ml. in Lombardia and 4.9 ml. in Veneto (Source: ISTAT).

## 8.1 Demographic Parameters and Labor Share

The distribution of the population and of the labor force participation rate in the nine age brackets that we consider for the two regions is taken from ISTAT and is reported in Table 5. As expected Lombardia and Veneto have a similar distributions, with a slightly higher fraction of over-50 in Veneto (45.3%) than in Lombardia (44.4%). The total population of the two regions is instead significantly different: 10 ml. in Lombardia and 4.9 ml. in Veneto.

In order to compute the GDP loss we need to calibrate the parameter representing the labor share, and thus the coefficient that maps the loss of employment due to Covid-19 into a GDP loss. For the value of this parameter we follow [Torrini \(2016\)](#), who estimates it to be 0.65 for the Italian economy. In the absence of specific information about this parameter for the two regions that we consider, we use this estimate for both Lombardia and Veneto.

## 8.2 Covid-19 Parameters

There are two sets of relevant parameters describing the health consequences of Covid-19 for an exposed subject. We take both these sets from [Ferguson et al. \(2020\)](#). An obvious caveat in considering these parameters is that they are estimated on the basis of data from China adjusted to predict US and Great Britain targets. We cannot exclude that the corresponding



values for Lombardia and Veneto are different. However, the estimates of [Ferguson et al. \(2020\)](#) have been confirmed by follow up research for different regions in the world.<sup>14</sup> We hope to be able to improve this parameter estimates if and when reliable data based on random testing for these two regions will become available. In any case, we do not expect that the comparison of the effects of the different policies should be particularly sensitive to reasonable changes of these parameters, at least in terms of first order consequences.

Table 6: Health effects of Covid-19 by age bracket

	Age brackets								
	0-9	10-19	20-29	30-39	40-49	50-59	60-69	70-79	80+
$p^{sev}$	0.001	0.003	0.012	0.032	0.049	0.102	0.166	0.243	0.273
$p^{ic}$	0.05	0.05	0.05	0.05	0.063	0.122	0.274	0.432	0.709
$p^{fat}$	0.00002	0.00006	0.0003	0.0008	0.0015	0.006	0.022	0.051	0.093

Note: the table reports for each age bracket the probability of hospitalization,  $p^{sev}$ , the probability of needing intensive care if hospitalized,  $p^{ic}$  and the probability of death  $p^{fat}$  for a subject exposed to Covid-19 infection. Source: [Ferguson et al. \(2020\)](#).

The first set of Covid-19 parameters defines the probability of hospitalization,  $p^{sev}$ , the probability of needing intensive care if hospitalized,  $p^{ic}$ , and the probability of death  $p^{fat}$  by age bracket and is described in Table 6. The values of all these probabilities clearly indicates that Covid-19 is considerably more dangerous for the old, with a pronounced increase of risks for subjects with an age greater than 50.

The second set of Covid-19 parameters that we need describes the lags of the transitions between states of the disease in the basic SEIR model; they are described in Table 7. As by now well known, a characteristic that makes SARS-Cov-2 particularly nasty is the number of days in which a subject may be infectious without showing symptoms, which is on average  $T_{inf} = 2.9$ .  $T_{inc} = 5.2$  (this is the average number of days of incubation). The period going from the day in which the first symptoms appear to the day of recovery is usually of  $T_{srec} = 11.1$  days for a Covid-19 patient, while in case of death, this event occurs  $T_{sd} = 17.8$  days after the appearance of symptoms. Hospitalization, if it is needed, occurs typically  $T_{shosp} = 5$  days after symptoms, while the period from symptoms to hospital discharge in case of hospitalization is of  $T_{shd} = 22.6$  days.

To match the evolution of daily fatalities, we also calibrate  $T_{shospU} = T_{shospD} = T_{shosp} = 5$  as well as  $T_{srecU} = T_{srecD} = T_{srec} = 11.1$ , i.e. the number of days before hospitalization and

<sup>14</sup>The results in ([Manski and Molinari, 2020](#)) and ([Korolev, 2020](#)) highlight the importance of evaluating robustness when COVID-19 parameters are used. We have evaluated the robustness of our results using the Covid-19 parameters calculated by the Center of Diseases Control (CDC) for the U.S. ([Garg, 2020](#)) and results are reported in the Online Appendix.

Table 7: Transition lags in the evolution between illness states of Covid-19

	Infectious without symptoms $T_{inf}$	Incubation without symptoms $T_{inc}$	Symptoms to recovery $T_{srec}$	Symptoms to death $T_{sd}$	Symptoms to entry in hospital $T_{shosp}$	Symptoms to discharge from hospital $T_{shd}$
Days	2.9	5.2	11.1	17.8	5	22.6

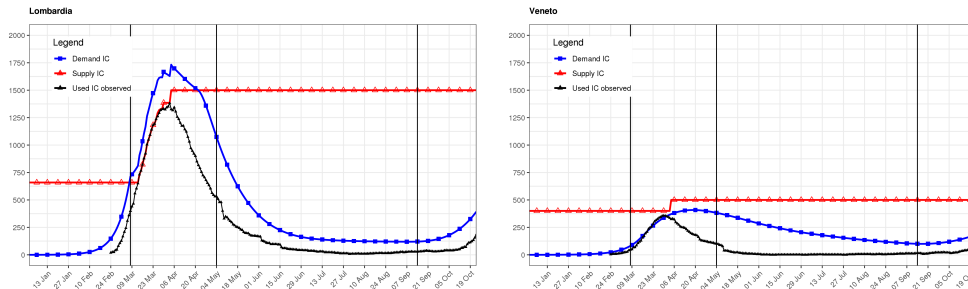
Note: the table reports the number of days for each transition between illness states of Covid-19. Source: [Ferguson et al. \(2020\)](#).

the recovery time is common across types of people. A fraction of hospitalized patients requires an IC bed after  $T_{hosp-ic} = 3$  days and if they survive they stay other  $T_{ic-rec} = 7$  days before they completely recover. Finally,  $T_{sd-hosp} = 12.8$  and  $T_{shd-inf} = 17.6$ .

### 8.3 Availability of Beds in Intensive Care

The SEIR-HC-SEC-AGE model makes the constraint in the availability of IC beds endogenous. When this constraint is binding, all subjects who need intensive care and do not find it become fatalities. Figure 5 illustrates how the constraint has operated in the two regions during the period for which data are available.

Figure 5: The IC availability constraint in Lombardia and Veneto



Note: The figure reports, respectively for the two regions, the simulated demand for IC beds due to Covid-19, the observed number Covid-19 patients in IC and the observed number of patients that were effectively hospitalized in IC. The vertical bars indicate the start of the Lockdown (March 8), the start of the Phase 2 (May 4) and the start of the new school year (September 14). The observed series were downloaded from <https://github.com/pcm-dpc/COVID-19> for the used IC and from <https://www.dropbox.com/s/skabm9ct71qud32/ICU%20beds%20statistics.xlsx?dl=0> for the supply of IC.

In Lombardia (left panel), given the initial very fast diffusion of the virus and the number of available IC beds, the constraint started to bite very quickly. These facts are responsible for the explosion of fatalities in this region which is displayed in the left panel of Figure 7. Even if Lombardia made a major effort to increase the supply of IC beds, the constraint continued to bite for a long time. In Veneto instead, the demand of IC is simulated to never reach the supply.

## 8.4 Basic Reproduction Number (BRN) of Covid-19 by age and sector

It is well known that every variant of the SEIR model is very sensitive to the basic reproduction number. In the case of the SEIR-HC-SEC-AGE extension that we have designed, the calibration of the BRN is further complicated by the need to set different values for different combinations of age, sector and working status of an infectious subject and of the susceptible subjects that enter in contact with him/her, which requires to calibrate a  $19 \times 19$  Basic Reproduction Matrix (BRM).

Moreover, given the presence of a behavioural response, we have to calibrate how this initial matrix evolves over time to generate a time varying  $R_t$  matrix for the periods for which we have data: the period before the Lockdown, the period of the Lockdown and the period of the Phase 2. Finally, we will do out-of-sample simulations of the alternative policies.

### 8.4.1 Calibration of the Basic reproduction Matrix

We recall that the *BRM* is completely described by the parameters in the vector  $\rho$ . Also remember that  $R_0(a, b) = \beta(m_0)M_0(a, b)$ , where  $\beta_0$  is the common initial probability of being infected give a contact and  $M_0(a, b)$  is the matrix that describes the initial number of contacts between agents in groups a and b. The parameters in the vector  $\rho$  are therefore not independent, as their ratio reflects the relative number of contacts between subjects at work, on transports, doing grocery and at home. The calibration of these four parameters is however simplified by the fact that, with the auxiliary information described below, they can be all set as a linear function of a single parameter,  $Risk(work)$ , which captures the number of contacts relevant for an average worker. So, by calibrating  $Risk(work)$  in a way such that the model matches the fatalities observed respectively in the two regions, we calibrate also the other parameters that are linearly related to  $Risk(work)$ .

The first type of auxiliary information needed to implement this strategy concerns the estimated number of contacts for the Italian population, which we obtained from the official documentation released by the government to justify the rules for the Phase 2.<sup>15</sup> This information suggests that the average number of contacts on transportation is 65% of the number of contacts in an average working place, while the correspondent number when not at work or not on transports is 60%. Therefore we set  $Tr = 0.65 * R(work)$  and  $Iso = 0.60 * Risk(work)$ .

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<sup>15</sup>Specifically, we use the numbers in Table 1 of the document provided at this link [https://www.ilmessaggero.it/uploads/ckfile/202004/Riapertura\\_report\\_27222237.pdf](https://www.ilmessaggero.it/uploads/ckfile/202004/Riapertura_report_27222237.pdf), that is based on original data from the “Istituto nazionale Assicurazione Infortuni sul Lavoro (INAIL)” and from Mossong et al. (2008).

We then discipline the remaining parameters of the vector  $\rho$ ,  $Risk(L)$  and  $Risk(H)$ , using the evidence in Barbieri et al. (2020) who report an index of proximity for workers operating in different sectors of the Italian economy. Sectors with higher proximity indices are those in which spreading of the virus is likely to be higher. Based on the evidence in their Table 3, we compute the proximity index for the sectors above and below the mean proximity index. We then assume that the percent difference between  $Risk(H)$  and  $Risk(work)$  is equal to the percent difference between the proximity index for sectors above the mean index and the mean index itself. This difference is equal to 18%. Similarly for the percent difference between  $Risk(work)$  and  $Risk(L)$ , which is equal to 12%.

#### 8.4.2 Evolution over time of the Basic Reproduction Matrix

In standard single-agent SEIR models the diffusion of the virus in each period depends on the basic reproduction number  $r_t$ , which is the product of the basic reproduction number  $r_0$  and the share of susceptible individuals in the total population at time  $t$ . A virus starts to implode when  $r_t$  goes below unity. ‘‘Herd immunity’’ is reached when the share of susceptible individuals in the total population goes below  $1/r_0$ . We emphasize the  $r_0$  used here is the reproduction number at initial pre-epidemic conditions, when no precautionary measure of any type is taken, so the number of infected contracts even if no such measure is taken.

The same concepts apply to our model except that the basic reproduction number becomes a basic initial reproduction matrix.  $R_t(a, b, \alpha)$  depends on the share of susceptible individuals in the total population, the evolution over time of the probability of contracting the virus for a susceptible given a contact with an infectious, and the product of the probabilities of activation of susceptible and infectious agents. The  $R_t(a, b, \alpha)$  element of the matrix will evolve according to:

$$R_t(a, b; \alpha) = \frac{S_{t-1}(b)}{N_{t-1}} \frac{\beta(m_{t-1})}{\beta(m_0)} Pr(V_t \geq v_t^* | a) Pr(V_t \geq v_t^* | b) R(a, b; \alpha)$$

In the current multi-risk model,  $Pr(V_t \geq v_t^*)$  is a 19 dimensional vector that describes the probability with which agents in each group become active. Substituting (3) into the equation (7), and using equation (15), we get that each of the elements of this vector is given by:

$$Pr(V_t \geq v_t^* | a) = \frac{(\bar{V} - K_t(a))(1 + \psi * TEMP_t)}{I_t + \bar{V}(1 + \psi * TEMP_t)}$$

To determine  $K_t(a)$  we use the estimates of the behavioural response of grocery moves in the first column of Table 3 of Section 3. We pick the parameter estimates for grocery because

they refer to an activity that can be chosen more freely by an individual, differently than workplace and transportation activities that may be constrained by the legal possibility to work or by interruptions of transportation services during Lockdown or the Phase 2. Indeed grocery was never prohibited, provided that a minimum distance could be maintained between individuals inside the shops or in their vicinity. For agents that are activated and go to school and work we set  $K_t(a) = 0$ , as their choice of being active depends only on the behavioural reaction and no lockdown policy is imposed to them. For agents that are inactive we use the estimation results and set

$$K_t(a) = 199.87Lock + 55.36Phase2.$$

where Lock and Phase2 are defined in footnote 10. Agents in the first two groups are activated when schools are opened and inactive otherwise. For agents in group 3,...12 (the ten groups constructed by considering the share of agents in working age employed in high risk and low risk sectors) a share  $\alpha$  is active and the complement to one is inactive. Finally, agents in groups, 13,...19 are all inactive.

To understand the role of containment policies it is useful to define the value of  $R_t$  within each regime in an hypothetical situation in which the policy is implemented in the absence of fatalities associated to the virus, and thus shutting down the behavioural response factor. We define this value as

$$R_{0,eq}(a, b; \alpha) = \frac{\beta(m_{t-1})}{\beta(m_0)} Pr(V_t \geq v_t^*|a, 0) Pr(V_t \geq v_t^*|b, 0) R(a, b; \alpha)$$

where  $Pr(V_t \geq v_t^*|a, 0)$  is obtained by setting to zero the behavioural response of agents to observed fatalities in group  $a$ .

### 8.4.3 Endogenous Mortality and Hospital Flows

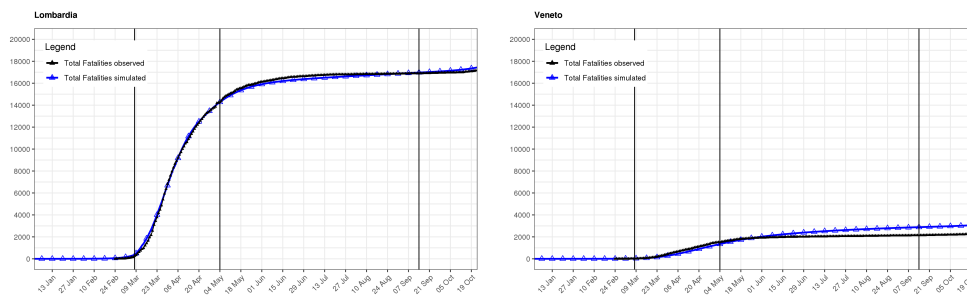
Testing policies are calibrated to be initially different for Lombardia and Veneto, but they are forced to converge after the Lockdown, in line with the evidence from the data. Therefore, the share of pre-tested agents  $\delta$  (see Section 5) is calibrated permanently to 0.3 for Veneto while it is set initially to 0 in Lombardia and successively increased to 0.3 during Lockdown.

To capture a testing policy designed to control hospitalization flows we set  $T_{inf0} = T_{inf}$ . To match the evidence on the stability of the ratio of quarantined at home to total infected in Veneto, we set the probability with which a detected MILD requires hospitalization to zero. To match hospital flows, the probability  $p^{fat}\gamma$  with which the MILD Undetected become Severe and need hospitalization is set to 0.9.

## 8.5 Calibration of Risk at Work

Figures 6 and 7 show that our calibration of  $Risk(work)$  and of the other related parameters produces a very good match between simulated and observed fatalities. What is crucial for the model to successfully match the two very different patterns of mortality in Lombardia and Veneto is the difference in the endogenous fatality rates of Covid-19 for the two regions. This heterogeneity is generated by the different management policies of the hospital flows, and by the associated unequal degrees of hospital and ICU saturation.

Figure 6: Simulated and observed total fatalities

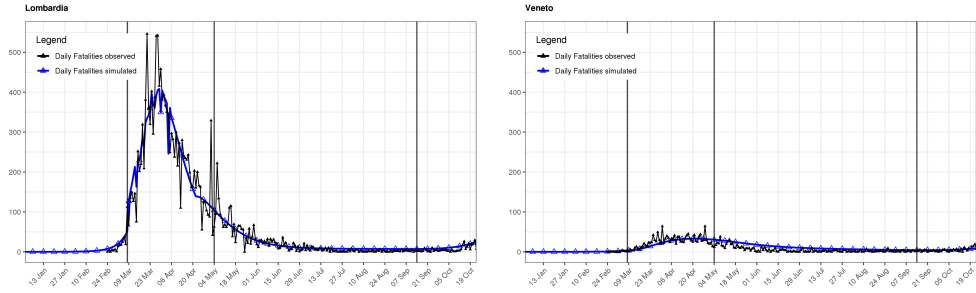


Note: The figure reports, respectively for the two regions, the simulated and observed numbers of total fatalities due to Covid-19. The vertical bars indicate the start of the Lockdown (March 8), the start of the Phase 2 (May 4) and the start of the new school year (September 14). The observed series were downloaded from <https://github.com/pcm-dpc/COVID-19>.

The equivalent BRMs for the pre-Lockdown period that result from the calibration for Lombardia and Veneto are respectively displayed in the left and right panels of the Appendix Figure A-1. As expected, in each region the reproduction number for interactions among workers in the low-risk sector is higher than for the interactions involving non-active subjects and smaller than in the high-risk sector. More interestingly, to match the observed mortality in the two regions, in each pair of corresponding blocks of the two matrices the relevant  $R_{0,eq}$  must be set to a considerably higher value for Lombardia. This difference reflects local factors such as the density in the population which is higher in Lombardia (422 inhabitants per  $Km^2$ ) than in Veneto (267 per  $Km^2$ ).

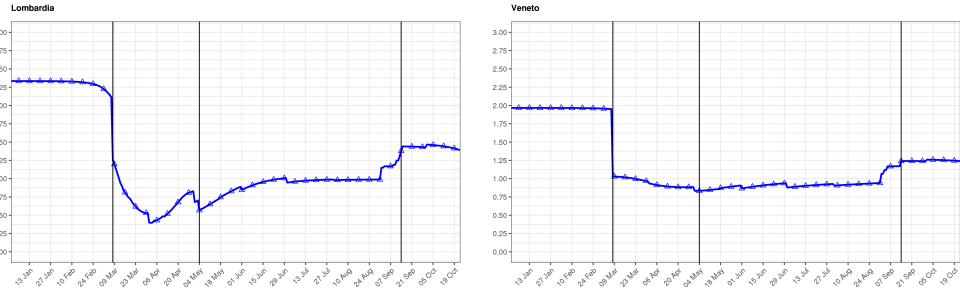
The equivalent BRMs during the Lockdown for the two regions are reported in the two panels of the Appendix Figure A-2. The entries in these matrices are remarkably lower across the entire population with respect to the pre-Lockdown values in Figure A-1. Relatively high values are observed only for the working population because, as already mentioned, during Lockdown a minimum fraction of workers (60% according to Barbieri et al., 2020) was allowed to work. Therefore the  $R_{0,eq}$  for the working population during Lockdown is produced by the same activation matrix prevailing in the pre-Lockdown regime for 60% of the population.

Figure 7: Simulated and observed daily fatalities



Note: The figure reports, respectively for the two regions, the simulated and observed numbers of daily fatalities. The vertical bars indicate the start of the Lockdown (March 8), the start of the Phase 2 (May 4) and the start of the new school year (September 14). The observed series were downloaded from <https://github.com/pcm-dpc/COVID-19>.

Figure 8: Simulated average  $R_t$



Note: The figure reports, respectively for the two regions, the average  $R_t$ , weighted to take into account the population structure. The vertical bars indicate the start of the Lockdown (March 8), the start of the Phase 2 (May 4), and the start of the new school year (September 14).

Figure 8 displays instead the evolution over time of the average  $R_t$ , which is determined by the behavioural response to fatalities and to the policies that we calibrate using the estimates of Table 3 in Section 3 (se also Section 8.4.2). This behavioural response determines a slight decrease of the average  $R_t$  in the pre-Lockdown period, when fatalities become positive but social distancing is not yet universally common in the population. At the beginning of the Lockdown we observe a sharp decrease of  $R_t$  as a reaction to the introduction of the containment policy, followed by a further reaction induced by the behavioural response to fatalities. When fatalities level off at the end of March and then decline, the average  $R_t$  begins to increase but it never goes back to initial values.

## 9 Policy Simulations

We simulate the model to predict the effects of the hypothetical policies that could be adopted in the two regions as of  $t^* = \text{November 1, 2020}$ . We run the simulation for 365 days,

under the assumption that by October 31, 2021 a vaccine or a therapy for Covid-19 will be available. We present our results in two sections: the first one describes the construction of the BRM equivalent matrices for the different policies, while the second one illustrates the results of the out-of-sample simulations.

## 9.1 Construction of Policies

Since each policy has its own workers activation vector, also the corresponding BRMs differ between policies. The parametrization of these matrices is however simplified by the fact that the basic initial reproduction matrix is completely described by the vector  $(Risk(L), Risk(H), Risk(work), Tr, Iso)$ .

We report, as an illustrative case, the full  $R_{0,eq}$  matrices for the policy AGE, respectively for Lombardia and Veneto, in the two panels of the Appendix Figure A-3. The matrices for all the other policies are reported in the Online Appendix. In all cases the time varying  $R_t$  matrices associated with the  $R_{0,eq}$  matrices evolve according to the law of motion determined by the estimates of the behavioural response to mortality discussed in Section 7 and 8.4.2.

As expected, for each policy the  $R_{0,eq}$  parameters grow with a combination of age, activity and riskiness of the sector (in case of activity). Most interactions (in particular those involving active subjects) have a  $R_{0,eq}$  greater than one but, taking into account the population weights, the mean  $R_{0,eq}$  corresponding to each policy is smaller. Therefore, the corresponding  $R_t$  matrix will decrease below 1 already at rather low levels of observed mortality because of the behavioural response.

We also assume that, during the simulation period, schools will be open and the interaction between students in the same class, given the adoption of protection measures, will imply a risk of contagion. This because we believe that schools should be open and we are interested in simulating the effects of containment policies in this condition. Note that workers in the education sectors (teachers and assistants) are classified by Barbieri et al. (2020) as operating in a high-risk sector and are treated accordingly in our simulation model, as a function of their age.

## 9.2 Dystopian Trade-off

Our main results are described in Figure 9 and 10. In these figures the vertical axis measures fatalities per million inhabitants while the horizontal axis measures GDP losses (relative to the GDP implied by the policy ALL), and the depicted lines describe, for the two regions and for four different scenarios, the frontier of the policies that are efficient, i.e. those yielding combinations of fatalities and GDP losses that are located on the lowest south-west convex



envelope of the set of outcomes induced by all feasible policies.

An example of these efficient policies is provided in the Appendix, Table A-1.<sup>16</sup> The top part lists the efficient policies that are common to both regions, ordered from the one that maximizes fatalities and minimizes the GDP loss (ALL) to the one associated with the opposite effects (LOCK). The general pattern is clear: starting from policy ALL, in order to move down along the efficient contour it is necessary to progressively inactivate (i.e. allow only the minimum 60% of the labor force to be active) workers in the high-risk sector, beginning with those belonging to a higher age bracket, until LOCK is reached in which case all age brackets and sectors are inactivated. Some policies slightly deviate from this pattern because labor force participation rates are not the same in all age brackets. The next panel in the table describes policies that are efficient only in Veneto, while the last panel describe two representative policies described in Table 1 that are close to the efficient contour.

The left panel of Figure 9 considers an hypothetical scenario in which  $\beta(m) = 0.7$ <sup>17</sup> and there is no behavioural response of the population to the number of fatalities. In this Scenario, the Policy ALL, that sends back to work all the active population, avoids any GDP loss but causes the maximum number of yearly fatalities in both regions, with Lombardia facing more than twice as many death per million inhabitants as Veneto ( $\approx 7000$  versus  $\approx 3000$ ) over the year starting on November 1, 2020. At the opposite extreme, the policy LOCK, that activates only 60% of workers in all sectors and age brackets, would significantly reduce fatalities (less than 1500 and less than 500 per million inhabitants, respectively in Lombardia and Veneto), but it would cause a probably unsustainable 25% loss of GDP in both regions.

However, interestingly, in both regions the efficient frontier is significantly convex, indicating the existence of a number of efficient mixed strategies based on the age and sector criteria that would reduce the total number of fatalities with relatively minor GDP losses. In Lombardia a 1 percentage point reduction of the GDP loss (about 4 billion Euro) obtained sending back to work only young and low-risk sector workers starting from a complete lockdown (LOCK), generates about 615 additional fatalities on a yearly basis. At the opposite extreme of the frontier, the same 1 percentage point reduction of GDP loss obtained with the activation of the oldest workers in risky sectors, i.e. approaching the case of the ALL policy,

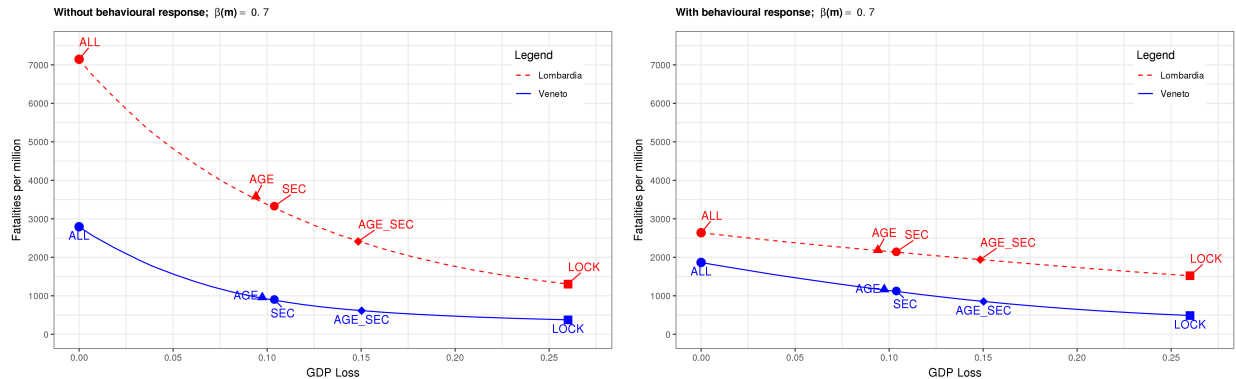
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<sup>16</sup>This example refers to the left panel of Figure 9, i.e. to the case of  $\beta(m) = 0.7$  without behavioural response.

<sup>17</sup>Remember that this parameters may be interpreted in two ways. One is that individuals are 30% more careful than normal in maintaining social distancing. The second is that aggressiveness of the virus declines by 30% for meteorological or other reasons. To shut down the behavioural response of subjects in this type of scenarios, we set to zero the slope of the response to the number of fatalities, and set the intercept at the average of the fatalities generated by the policy ALL during the simulation period for the case in which a behavioural response is present.

the number of additional fatalities is more than 8 times higher (5,860). The correspondent numbers for Veneto (where one percentage point of GDP is worth about 1.6 billion Euro) are 60 and 1597 (in this case the second number is about 26 times higher than the first one).

Figure 9: The efficient frontier in the two regions with  $\beta(m) = 0.7$



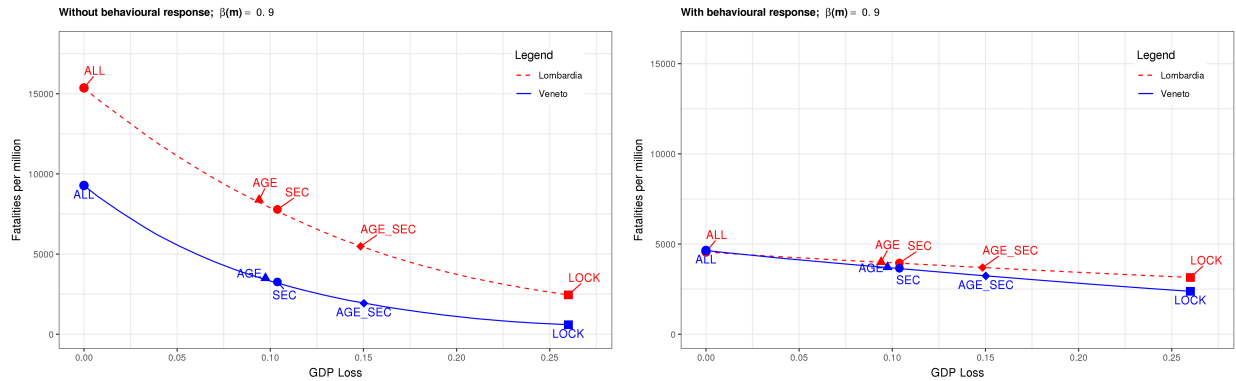
Note: In each panel, the two curves report the efficient frontiers for outcomes occurring between November 1, 2020, and October 31, 2021. Each point shows the GDP loss and the number of fatalities per million individuals associated to the policies that are efficient (as defined in the text). The representative policies are displayed in the same way. GDP losses are defined as relative to the GDP implied by the policy ALL.

A very different pattern emerges in the right panel of Figure 9, where we allow individuals to respond to news about fatalities, based on the estimates in Table 3 of Section 7. In this scenario, the frontiers of both regions become remarkably linear and flat because, when fatalities grow, individuals begin to react by reducing mobility and thus infections. This behavioural response counterbalances the effect on fatalities deriving from activating workers with the intent to decrease GDP losses. In other words, when the behavioural response kicks in, increasing the level of activity with workers of higher ages in more risky sector becomes possible with a lower cost in terms of fatalities.

The choice of which one of the specific efficient policies should be adopted depends of course on the weight society gives to fatalities versus GDP losses in the aggregate welfare function. However, the combination of the evidence in the two panels of Figure 9 suggests that even in the absence of a behavioural response to fatalities, there exists a wide set of policies differentiated by age and riskiness of sectors that would allow the two regions to reduce significantly GDP losses without a dramatic increase in fatalities. The existence of a behavioural response of the size we have estimated would help in reaching this goal and would become effective when most needed, i.e. at relatively high levels of fatalities as in Lombardia. Of course, this more desirable scenario hinges on the expectation that the behavioural response that we have estimated in Section 7 for the first months of the pandemic persists in the long run, even when the population will have get used to the virus. If at that

point habit formation will induce a weaker response to fatalities, the scenario of the left panel will be the most likely one.

Figure 10: The efficient frontier in the two regions with  $\beta(m) = 0.9$



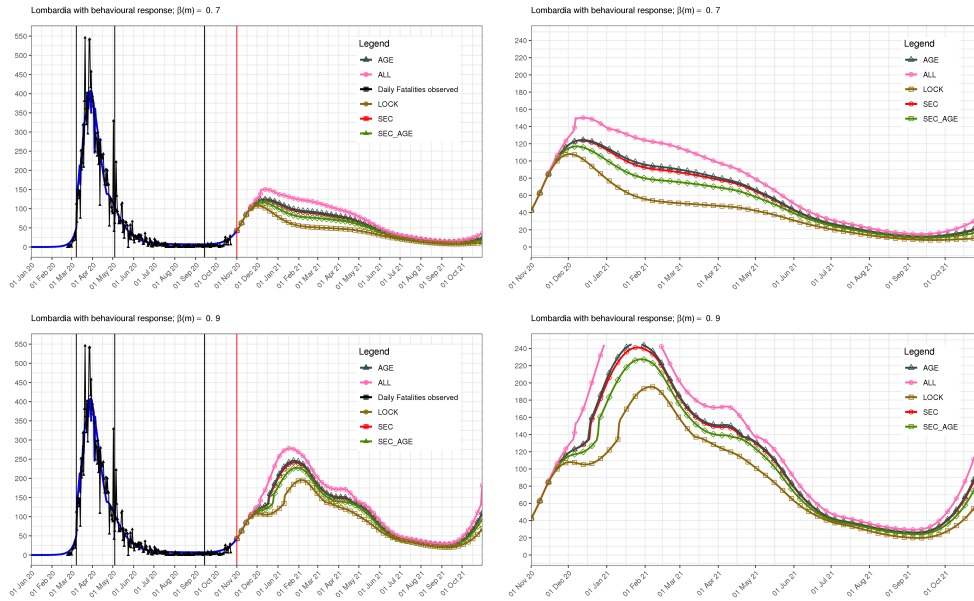
Note: In each panel, the two curves report the efficient frontiers for outcomes occurring between November 1, 2020, and October 31, 2021. Each point shows the GDP loss and the number of fatalities per million individuals associated to the policies that are efficient (as defined in the text). The representative policies are displayed in the same way. GDP losses are defined as relative to the GDP implied by the policy ALL.

Figure 10 replicates the same analysis for the case in which  $\beta(m) = 0.9$ . This parameter implies a lower level of attention of the population in implementing social distancing or a higher level of aggressiveness of the virus. In this case, the scenario described by the left panel, without a behavioural response, is considerably more dramatic featuring higher numbers of fatalities. At this level of the parameter  $\beta(m)$  the existence of a behavioural response to fatalities at least as strong as the one we have estimated is crucial to allow for a substantial reduction of GDP losses that is not too costly in terms of lives. This is shown in the right Panel of Figure 10, where the frontiers of both regions become again linear and flat, with numbers of fatalities that are closer in size to those of the right panel of Figure 9. If the ALL policy were to be adopted with  $\beta(m) = 0.9$  and in presence of a behavioural response, yearly fatalities would not go above the level of 5000 per million inhabitants.

As for the relative position of the efficient frontiers of the two regions with respect to fatalities for any level of GDP loss, Lombardia appears to have a relatively worse trade-off in all scenarios. One reason for this difference, as already mentioned, is the higher density of the population in this region. In addition, although the management of hospital flows has become more similar between the two regions, at least during the period for which we have data (see Figure 1), differences remain that make the public health system in Lombardia more fragile with respect to significant waves of infections. And this appears to be true even if the ICU capacity has been expanded in this region during the pandemic.

Figure 11 plots the daily fatalities predicted by the model for Lombardia allowing the

Figure 11: Daily fatalities under the different policies in Lombardia.



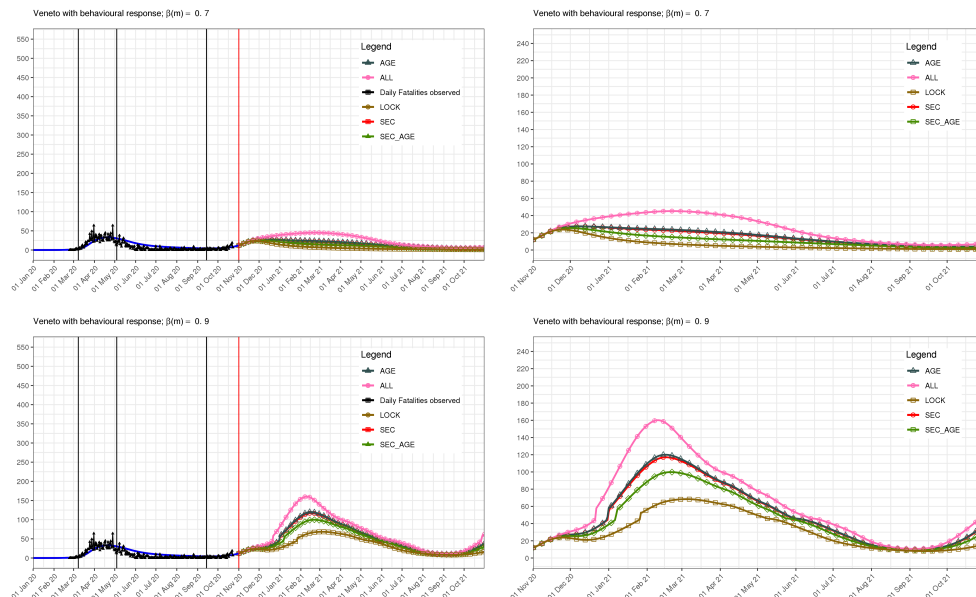
Note: The figure reports, for Lombardia, the daily fatalities due to Covid-19 under the 5 representative policies that we consider, for the scenario with behavioural response and  $\beta(m) = 0.7$ . The left panels cover the entire period from January 1, 2020 to October 31, 2021. The right panels zoom into the year of simulation starting on November 1 in order to better highlight the differences between the fatalities associated to each policy.

prediction to differ, during the simulation year, according to the five representative policies that we consider. The left panels cover the entire period from January 1, 2020 to October 31, 2021. The right panels zoom into the year of simulation starting on November 1, 2020. The top panels are for the scenario in which  $\beta(m) = 0.7$  and the population responds to fatalities. In this case, despite the lower  $\beta(m)$ , Lombardia is predicted to face a new wave of infection (which is exactly what we are observing at the moment in which we are writing these pages) and possibly a third one towards the end of the period. However, these new waves are unlikely to be as dramatic as the one experienced in March, 2020, even if policy ALL were to be adopted and everybody went back to work. The lines for the representative mixed policy AGE.SEC clearly indicates that the differentiation of containment by age and sector risk offers the possibility to alleviate the costs of the future waves in terms of fatalities.

The bottom panels assume  $\beta(m) = 0.9$ , while still allowing for the estimated behavioural response of the population to fatalities. In this case Lombardia will face a much worse second wave of infection during the winter of 2020-21, particularly if policy ALL is adopted. An interesting feature of this scenario, in line with the qualitative predictions of [Cochrane \(2020\)](#), is the oscillatory pattern of daily fatalities during the simulation year that we observe independently of the adopted policy. These oscillations are the result of the behavioural response to fatalities in the population that is strong when fatalities are high, thereby contributing to

contain the height of the wave, and weak when fatalities are low, contributing to facilitate the conditions for a subsequent wave.

Figure 12: Daily fatalities under different policies in Veneto.



The figure reports, for Veneto, the daily fatalities due to Covid-19 under the 5 representative policies that we consider, for the scenario with behavioural response and  $\beta(m) = 0.7$ . The left panels cover the entire period from January 1, 2020 to October 31, 2021. The right panels zoom into the year of simulation starting on November 1 in order to better highlight the differences between the fatalities associated to each policy.

In all these scenarios, the level of fatalities would be much higher in the absence of a behavioural response and the correspondent figures are in the Online Appendix. Figure 12 replicates the analysis of predicted daily fatalities for Veneto with qualitatively similar findings, starting from a much lower level of fatalities for the reasons illustrated in previous sections.

Tables 8 displays some summary statistics of the effects of the representative policies in Lombardia and Veneto. Here we want to highlight two interesting facts. First, in both regions herd immunity is unlikely to help in winning the battle against the virus. Even if everybody went back to work during the simulation year (Policy ALL), thus increasing the probability of infection, herd immunity would not grow to sufficiently high levels. Second, while the mean  $R_t$  over the simulation year is very similar for all the five emblematic policies and slightly smaller than 1 in all cases, what determines the different outcomes is the variability of  $R_t$  over time.

Table 8: Lombardia and Veneto: main outcomes with behavioural response and  $\beta(m) = 0.7$

	Policies				
	LOCK	SEC	AGE	SEC_AGE	ALL
<i>Lombardia</i>					
Total fatalities	15198	21422	21894	19400	26393
GDP loss	0.26	0.104	0.094	0.148	0
Final immunity share	0.050	0.059	0.061	0.057	0.068
Average $R_t$	0.947 (0.823-1.324)	0.956 (0.807-1.324)	0.957 (0.805- 1.324)	0.954 (0.817-1.324)	0.961 (0.786-1.324)
<i>Veneto</i>					
Total fatalities	5557	8681	8891	7339	12311
GDP loss	0.26	0.104	0.097	0.150	0
Final immunity share	0.023	0.035	0.036	0.031	0.045
Average $R_t$	0.910 (0.857-1.225)	0.937 (0.856-1.225)	0.939 (0.854-1.225)	0.933 (0.873-1.225)	0.946 (0.840-1.225)

Note: The table reports the main outcomes of the five policies in Lombardia and Veneto, for the scenario with behavioural response and  $\beta(m) = 0.7$ , measured over the year between November 1, 2020 and October 31, 2021. Final immunity share is calculated at the end of the simulation period taking into account the total exposed from January 1, 2020 and excluding reinfection. The numbers in parentheses indicate the minimum and maximum Average  $R_t$  during the simulation period (they do not define a confidence interval).

## 10 Conclusions

Compared to existing work in the now vast field of economics of a pandemic, this paper has several important distinctive features.

**Quantitative Realism in Modeling.** First of all, we have tried to make the model directly empirically relevant, aiming to provide precise (as much as possible) estimates and predictions of future developments. We are not interested here in providing qualitative regularities that can organize our thinking about the phenomenon: we want to provide a tool that measures consequences in terms of the most important outcomes (such as number of fatalities, loss of GDP, development of herd immunity in the population), and thus offers precise estimates of the tradeoffs between the values of these variables that follows specific, implementable, realistic policies. We want to provide a tool for the decision makers and the informed public opinion.

To achieve this objective of quantitative realism, we build, relying on Favero (2020), a model extending the classical *SEIR* (which is the relevant epidemiological model in the case the Covid-19 epidemic, as opposed for instance to *SIR* models) taking into account two broad orders of factors. The first is the constraints of hospital and health structures. This constraint is a crucial specific characteristic of the current epidemic, and explains many of the puzzling phenomena that have emerged (one instance is the difference of the spread of the epidemic in the two regions of Lombardia and Veneto). The second is the specific dynamic of

the epidemics across different types of individuals and clinical conditions. This in turn allows us to take into due account the differences in fundamental biological parameters across ages. Only because we do this in a realistic way we can then calibrate the crucial parameters and provide an accurate estimate of policies differentiating the intervention depending on the age of the individuals.

**Role of Hospitals and Health Structures.** A crucial characteristic feature of the current epidemic has been its potential to overrun hospitals and health structures, introducing a significant non linearity in the number of fatalities as function of the number of infected. We have used as a proxy for the measure of stress on hospitals the fraction of use of ICU's. While we do not think that ICU have a dominant role in the ability of hospitals to save lives, the measure has proved to be in our data analysis an effective indicator of the performance of hospitals in care provision. This feature, together with the more obvious effect of population density, plays a crucial role in explaining the difference between the developments in Lombardia and Veneto, and is likely the most important explanation of other specific instances of the epidemic, such as, for example, its recent evolution in New York City.

**Identification of Efficient Policies.** In line with our main aim, we have not tried to derive estimation of policies on the basis of a welfare function or the utility of a representative agent in a competitive economy with a public sector. Our main conclusions, when we evaluate policies, have been formulated as two main groups of findings. First, we want to identify the policies that are efficient, that is policies for which there is no other feasible policy that induces a better final outcome in all relevant outcomes. We think that public opinion and informed discussion should choose among these, and offer the analysis necessary to avoid policy mistakes. Second, we allow the comparison between any two of these policies to be reduced to a comparison between estimated specific values of the relevant outcomes. When the public is considering the shift from a policy to another, we are offering here an estimate of the costs and benefits of the two policies. We have no illusion that the numbers we offer are the true numbers: we are however convinced that having some estimate reasonably close to the truth is better than having only qualitative, sometimes obvious, statements. Navier-Stokes equation provides an approximation, just like we do, but planes fly on the basis of the approximation. Here the quantitative realism is essential: what matters is the size of the effect, not just its direction.

The results presented in Section 9 illustrate one of the main tools we offer to the public debate. The figures present the values of possibly the two most important variables (total number of fatalities and GDP loss over one year period) that our model associates to a menu of policy choices determining the number and groups of workers that are allowed back

to work. In line with our efficiency criterion, we only provide the values associated with the policies that are not dominated by other feasible ones. The results are presented for two regions, that are emblematic of two very different evolutions of the current epidemic in Italy, Lombardia and Veneto. As expected, the precise trade-offs depend on the estimated underlying parameters, that are very different as anyone acquainted with the current debate in Italy knows. In spite of this, precise conclusions common to both cases can be drawn, which are therefore robust to the parameter specification.

**Behavioral Adjustments.** We have also provided an estimate, based on real data, of the effect of behavioral adjustments of individuals to the risk of infection. The estimation strategy is guided by a simple but effective model of how individuals balance the utility from mobility with the risk of getting infected, and how this response adjusts to the estimate of the number of infectious based on the current number of fatalities. The size of the effect of this adjustment is striking. Its magnitude, particularly in the early days of the epidemics, is comparable to the effects of the administrative measures taken in Italy in the months of March and April, which were severe. The Pareto curve, which is our measure of the trade-off between fatalities and loss of GDP becomes almost flat as a consequence of these individual adjustments. The response is highly non linear: an additional increase in the risk (measured in our model by the number of fatalities) results in a flatter and flatter response of the mobility measures. We should also take into account that this estimate of the effect relies on the assumption that the size of the response will be in the future similar to what we have observed in the past; this assumption may be problematic.

**Extensions.** We have not explicitly considered, in this version of the paper, policies that are different according to regions (or macro regions, such as North and South). This extension is feasible, indeed easy within our framework, since it requires a calibration of the key parameters, as well as the number of Infectious in the initial period. Also, we have not modelled the impact of policies on the capital side of the production function and we have not considered fiscal policy interventions and their consequences to workers, firms and the sustainability of public debt. We plan to extend the simple macroeconomic structure adopted here to address all these issues in future work.

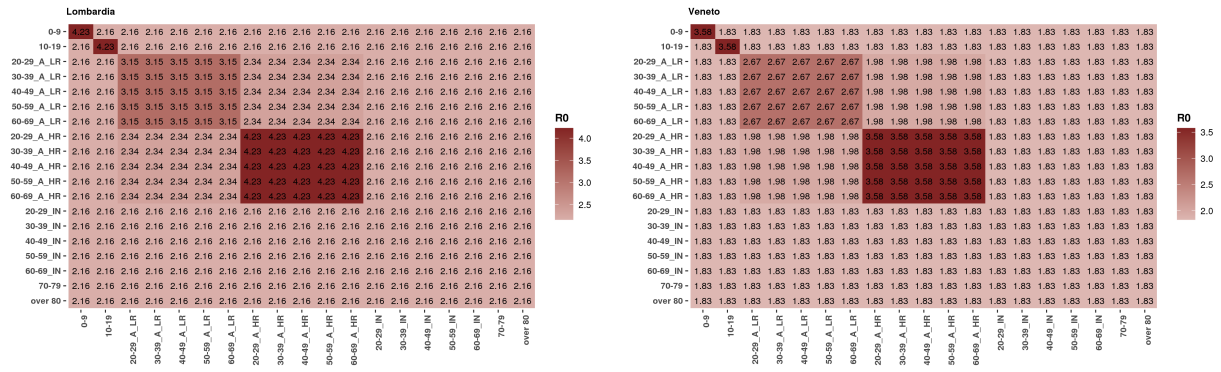
Costs and benefits of alternative policies that are widely discussed have not been considered explicitly, but can be easily adjusted within the current framework. Here we consider some examples. Increasing the number of IC units and training the personnel necessary to manage them has a financial cost, and a benefit in terms of fatalities. These unitary costs can be estimated, and the effect of the policy estimated. Testing, of all types, has clear costs, and benefits that can be formulated as reduction of the corresponding entries of the basic reproduction matrix. Testing of workers can substantially reduce contagion within a



risk sector (low and high); and it can reduce the risk across risk classes (for instance affecting the contagion in mass transportation). Similarly, measures to reduce the spread during traveling affect the  $Tr$  parameter. Pharmacological remedies change the basic “biological” parameters, such as the  $p^{sev}$ ,  $p^{ic}$  and  $p^{fat}$ . In summary, the purpose of the paper is to provide a method that is rich enough but tractable to quantify the benefits of alternative policies.

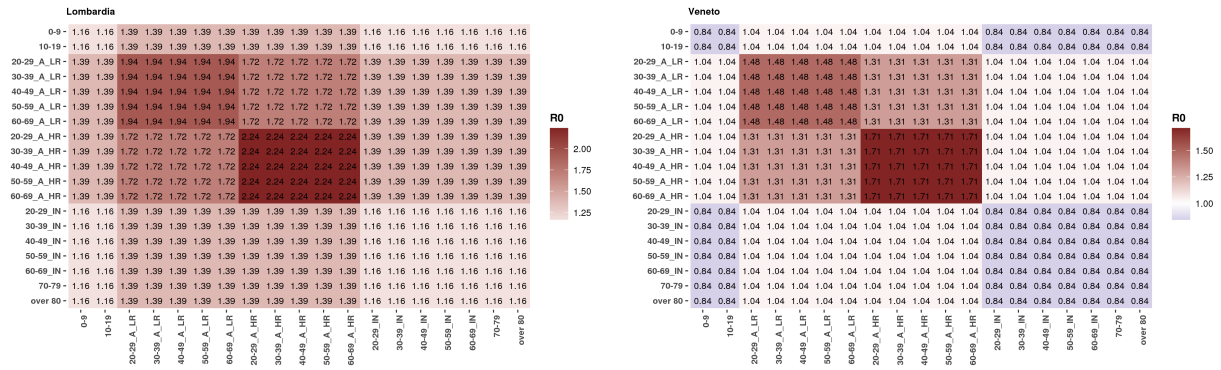
# 11 Appendix

Figure A-1: Basic Reproduction Matrices before Lockdown



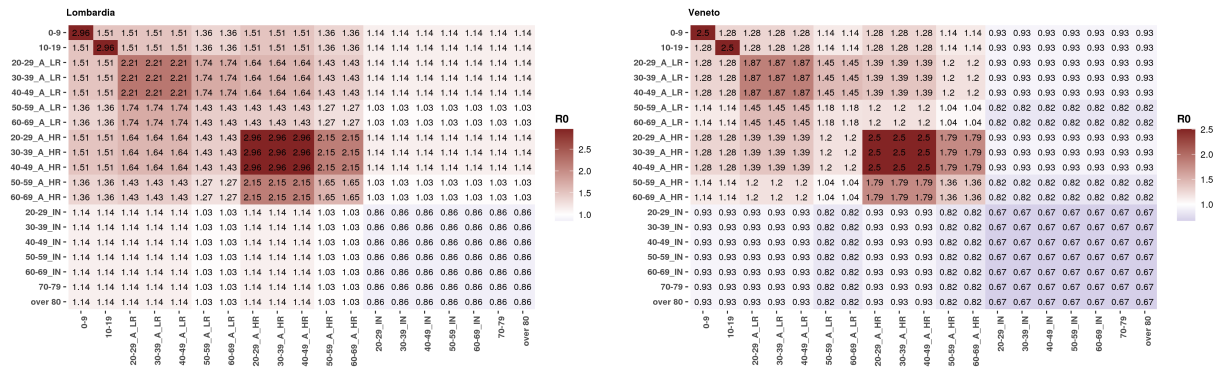
Note: Each cell in the table reports the  $R_0$  for the interaction between an infectious subject of the category of the corresponding row and exposed subjects in the category of the corresponding column.

Figure A-2: Equivalent Basic Reproduction Matrices during Lockdown



Note: Each cell in the table reports the  $R_0,eq$  for the interaction between an infectious subject of the category of the corresponding row and exposed subjects in the category of the corresponding column.

Figure A-3: Equivalent Basic Reproduction Matrices post-Lockdown for Policy AGE



Note: Each cell in the table reports the  $R_0,eq$  with  $\beta(m) = 0.9$  for the interaction between an infectious subject of the category of the corresponding row and exposed subjects in the category of the corresponding column.

Table A-1: Worker activation vector of the efficient policies in Lombardia and Veneto with behavioural response and  $\beta(m) = 0.7$

Policy	Low-Risk sector Age brackets					High-Risk sector Age brackets				
	20-29	30-39	40-49	50-59	60-65	20-29	30-39	40-49	50-59	60-65
<i>Efficient AGE_SEC policies common to both regions</i>										
$p = \text{ALL}$	1	1	1	1	1	1	1	1	1	1
$p = \text{AGE\_SEC}_1$	1	1	1	1	1	1	1	1	1	0.6
$p = \text{AGE\_SEC}_2$	1	1	1	1	1	0.6	1	1	1	0.6
$p = \text{AGE\_SEC}_3$	1	1	1	1	1	1	1	1	0.6	0.6
$p = \text{AGE\_SEC}_4$	1	1	1	1	1	0.6	1	1	0.6	0.6
$p = \text{AGE\_SEC}_5$	1	1	1	1	1	1	0.6	1	0.6	0.6
$p = \text{AGE\_SEC}_6$	1	1	1	1	0.6	1	0.6	1	0.6	0.6
$p = \text{AGE\_SEC}_7$	1	1	1	1	0.6	1	1	0.6	0.6	0.6
$p = \text{AGE\_SEC}_8$	1	1	1	0.6	0.6	0.6	1	0.6	0.6	0.6
$p = \text{AGE\_SEC}$	1	1	1	0.6	0.6	1	0.6	0.6	0.6	0.6
$p = \text{AGE\_SEC}_9$	0.6	1	1	0.6	0.6	1	0.6	0.6	0.6	0.6
$p = \text{AGE\_SEC}_{10}$	0.6	1	1	0.6	0.6	0.6	0.6	0.6	0.6	0.6
$p = \text{AGE\_SEC}_{11}$	1	0.6	1	0.6	0.6	0.6	0.6	0.6	0.6	0.6
$p = \text{AGE\_SEC}_{12}$	1	1	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
$p = \text{AGE\_SEC}_{13}$	0.6	1	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
$p = \text{AGE\_SEC}_{14}$	1	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
$p = \text{LOCK}$	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
<i>Efficient AGE_SEC policies for Veneto only</i>										
$p = \text{AGE\_SEC}_{15}$	1	1	1	1	1	1	1	1	0.6	1
$p = \text{AGE\_SEC}_{16}$	1	1	1	1	0.6	0.6	1	0.6	0.6	0.6
$p = \text{AGE\_SEC}_{17}$	0.6	1	1	1	0.6	1	1	0.6	0.6	0.6
$p = \text{AGE\_SEC}_{18}$	1	1	1	0.6	1	1	1	0.6	0.6	0.6
$p = \text{AGE\_SEC}_{19}$	1	1	1	0.6	0.6	1	1	0.6	0.6	0.6
$p = \text{AGE\_SEC}_{20}$	1	1	1	0.6	0.6	0.6	0.6	0.6	0.6	0.6
<i>Other representative policies close to the efficient contour</i>										
$p = \text{SEC}$	1	1	1	1	1	0.6	0.6	0.6	0.6	0.6
$p = \text{AGE}$	1	1	1	0.6	0.6	1	1	1	0.6	0.6

Note: This table reports the labor force activation vector for all the efficient and representative policies.

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