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An Economic Model of Health-vs-Wealth Prioritization during Covid-19: Optimal Lockdown, Network Centrality, and Segregation

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September 14, 2020 Abstract

We address the problem of finding the optimal lockdown and reopening policy during a pandemic like COVID-19 for a social planner who *prioritizes* health over the economy. Agents are connected through a fuzzy network of contacts, and the planner's objective is to determine the policy that contains the spread of infection below a *tolerable* incidence level, and that maximizes the present discounted value of real income, in that order of priority. We show theoretically that the planner's problem has a unique solution. The optimal policy depends both on the configuration of the contact network and the tolerated infection incidence. Using simulations, we apply these theoretical findings to: (i) quantify the trade-off between the economic cost of the pandemic and the infection incidence allowed by the social planner, and show how this trade-off depends on network configuration; (ii) understand the correlation between different measures of network centrality and individual lockdown probability, and derive implications for the optimal design of surveys on social distancing behavior and network structure; and (iii) analyze how segregation induces differential health and economic dynamics in minority and majority populations, also illustrating the crucial role of patient zero in these dynamics.

Keywords: COVID-19, health-vs-wealth prioritization, economic cost, fuzzy networks, network centrality, segregation, patient zero, optimally targeted lockdown policy.

JEL: E61, H12, I18

1 Introduction

The rapid spread of the novel coronavirus disease (COVID-19) has already affected over 29 million individuals and claimed 925,820 lives globally (JHU CSSE, September 14, 2020, 4:05 PM). Governments around the world are implementing a variety of strategies to contain this pandemic: prescriptions of social distancing and hygiene measures, extensive production of personal protection equipment (PPE), expansion of testing and hospital capacities, use of face masks and contact tracing, and racing towards developing vaccines. In particular, the enforcement of social distancing policies has led to the cumulative lockdown of over half of the world population (Buchholz, 2020). While this approach for mitigating the contagion has shown some positive results, the associated economic costs are considerable. The Growth Domestic Product in both advanced and developing countries has decreased significantly as a result of the COVID-19 pandemic (see Figure 1 below), but the economy is projected to recover if this health situation is dealt with properly. In the United States, the Bureau of Labor Statistics reported on May 8, 2020 that total non-farm



Source: World Economic Outlook, International Monetary Fund, April 14, 2020.

Figure 1: Growth Domestic Product, Percent Difference

payroll employment fell by 20.5 million in April 2020, and the unemployment rate rose to 14.7 percent. In the United Kingdom, the National Institute for Economic and Social Research predicts

that a prolonged lockdown could contract the economy by 15% to 25% in the second quarter of 2020 (Whyte, 2020). Additionally, only a small fraction of the jobs currently available in major economies are being done remotely. Dingel & Neiman (2020) estimate that in the United States, only 35% of jobs can be performed from home. Such a situation may not be economically viable in the long run. The important economic and social costs implied by quasi-complete lockdown is forcing governments and policymakers to think about less costly alternatives that might consist of imposing quarantine measures only on certain individuals while letting others go back to work. This new development raises the question of how to design optimally targeted lockdown policies, and how these policies are likely to affect different population subgroups.

In this paper, we address these important questions in a society that *prioritizes* health over the economy, and where agents are connected through a fuzzy network of physical contacts. We develop a theoretical model, which we apply to analyze: (1) the effect of network structure on the dynamics of optimal lockdown, infection, recovery, death, and economic costs; (2) the trade-off between public health and the economic cost of the pandemic; (3) how network centrality affects the probability of being sent to lockdown; and (4) how segregation induces differential health and economic dynamics for minority and majority populations.

We view this question as a planning problem, and our assumption that health is prioritized over the economy is consistent with several recent observations. Indeed, a survey conducted in Canada, China, France, Germany, India, Japan, Mexico, Saudi Arabia, South Korea, the UK and the US shows that on average, 67% of the people interviewed highly prioritize saving as many lives as possible even if it induces a cost burden to the economy (John, 2020). In another study carried out in the US and UK, Heap et al. (2020) find that people highly value health over wealth. Recently, when asked about relaxing travel restrictions for international travelers, Canadian Prime Minister Justin Trudeau cited public health over the economy as a top priority: "As we look at those next steps we need to make sure we are keeping Canadians safe, first and foremost." (Aiello, 2020, n.d). The latter confirms a statement of Stiglitz (2020, n.d): "There can be no economic recovery until the virus is contained, so addressing the health emergency is the top priority for policymakers." As we argue later, this approach is more general and flexible, as it helps us avoid the difficult problem of giving a precise monetary value to health and life.¹

¹See Pindyck (2020) for the expression of a similar concern.

We describe our model and state the social planner's objective problem below:

- A: Agents (including individuals and social infrastructures) are connected through a *fuzzy* network of physical contacts through which the virus is likely to spread. The fuzzy nature of the contact network implies that the intensity of interactions between agents is not necessarily binary, and it is likely to vary across relationships.²
- B: At any point in time, an agent is one of the following five states: susceptible, infected, recovered, dead, or isolated (that is, in lockdown). At time zero, all agents are susceptible. Susceptible agents can become infected or can be sent to lockdown, while infected agents can recover or die. The dynamics of infection, recovery, death, and lockdown follow a model that generalizes the classical SIR model (Kermack & McKendrick, 1927, 1932) in two ways. First, whereas the classical model assumes a random *matching technology*, our model assumes any arbitrary network structure, and agents can only be infected through connections in the prevailing contact network if they have not been sent to lockdown. Second, whereas the classical model assumes three states (susceptible, infected, recovered), our model incorporates two additional states (death and lockdown), with the lockdown variable being a key choice variable for the social planner.
- C: The social planner's objective is to determine the lockdown policy that contains the spread of the infection below a tolerable *incidence* level, and that maximizes the present discounted value of real income (or alternatively, that minimizes the economic cost of the pandemic), in that order of priority. In other words, the social planner allocates the "work-from-home" rights to achieve these goals. An appeal of this lexicographic approach to the social planner's problem is that it does not force us to assign a precise monetary value to health or to life. Rather, it allows a great deal of flexibility in how to design policies, with clear health and economic goals in mind. For instance, the social planner could set an incidence level that

²Our model allows the interpretation of a contact network to be broad. At the micro-level, agents are individuals and the infrastructures (for example, public buildings, transportation infrastructures, shopping centers, parks, etcetera) they interact with daily. At the macro-level, agents can be viewed as spatial entities such as countries or cities. Moreover, network configuration is arbitrary, making sense given that social structure varies a great deal across societies. For example, some societies are individualistic, while others are organized around extended family and ethnic groups (Deji, 2011; Pongou, 2010).

allows to keep the number of infected individuals below hospitals capacities, or she could set an incidence level that is high enough if she prioritizes wealth over health.

In order to solve the social planner's problem, we first characterize the dynamic of infection, recovery and death rates in our N-SIRD model with lockdown, and show that this dynamic yields a unique solution under classical conditions (Proposition 1). This unique solution shows that the rates of infection, recovery and death at any given time is a function of the lockdown variable and the initial network of contacts that captures social structure.

The social planner's objective is lexicographic, where the first objective is to identify the set of lockdown policies that contain the infection incidence (as dictated by the solution of the N-SIRD above) below a tolerable threshold, and the second objective is to choose among those contagionminimizing policies the policy which maximizes the discounted stream of economic surpluses. We show that this problem has a unique solution as well, and this solution depends on both the infection incidence level allowed by the planner and the prevailing network of physical contacts that characterizes society (Proposition 2). This unique solution also shows that the tolerated infection incidence level and the prevailing network of physical contacts determine the dynamic of infection, recovery, death, and economic costs.

The same approach can be followed to design optimal exit policies from a situation of complete or quasi-complete lockdown. In this case, the social planner solves the inverse problem of the problem stated above, which consists of selecting which individuals should be released from lockdown first. It can be shown that the solution to this problem is unique, and that this solution has the same properties as the solution to the lockdown problem.

We develop several applications of our theoretical findings using simulations that rely on realistic data on transmission rates. First, we conduct a comparative statics analysis to study how the tolerated infection incidence level and the prevailing network of physical contacts determine the dynamic of infection, recovery, death, lockdown, and economic losses. We find that these two factors have a huge impact on these outcomes. For instance, we simulate two societies that are identical in every respect except in their social network structure. Agents in the first society are connected through a star network, whereas agents in the second society are connected through a star network, whereas agents in the second society are connected through a star network (Watts & Strogatz, 1998). We find that the optimal lockdown policy differs significantly across the two societies, with around 15 percent and 25 percent being

sent into lockdown (Figure 2), respectively. Similarly, the dynamics of infection differs, with the infection rate peaking both earlier and being lower in the second society. Moreover, the economic cost of the epidemic is overall higher in the small network world compared to the star network society. Our analysis also allows us to appreciate how the infection incidence that is tolerated, by the social planner, affects the lockdown dynamic as well as the economic cost of the epidemic (Figure 4). We find that a higher tolerated incidence level results in lower lockdown rates and economic surplus loss. While this result illustrates the health-economics trade-off faced by the social planner, it does not prescribe any resolution of this trade-off, as this is ultimately based on the value that society puts on population health versus the economy.

Another application illustrates how network centrality affects the probability of being sent to lockdown. Simulations based on various network structures show that individuals that are more central in a network are more likely to be sent into lockdown. It does not imply that all agents have to be confined under the optimal policy, as the goal is simply to disconnect the prevailing contact network. The analysis therefore suggests that the recent quasi-universal lockdown implemented in certain countries around the world was not necessarily optimal. While this approach was likely to disconnect the prevailing contact networks, it was more than necessary and resulted in untenable economic costs. Our analysis implies that only certain particular sectors of the society should be shut down, especially those sectors that attract large numbers of people, such as shopping centers, airports and other modes of public transportation, cities that play the role of economic or social hubs, schools, certain government buildings and other public services, entertainment fields, parks, beaches, among others. While this prediction was to be expected, what emerges from the analysis as less trivial is that some centrality measures are more predictive than others. In particular, we find that degree centrality correlates more highly to the probability of being sent into lockdown than betweenness or eigenvector or closeness centrality (see Table 1). This result has important empirical implications, especially in a context in which data on network structure are hard to collect. It indicates that information on the number of direct connections that an individual has in a network is more relevant for the design of lockdown policies than information on both direct and indirect connections (or information on the whole geometry of the network). As information on direct collections is also much easier and less costly to collect than information on network configuration, our analysis is likely to inform the optimal design of surveys that collect data on social distancing behavior and network structure during a pandemic like COVID-19.

Our final application studies the effect of segregation on the dynamics of infection, recovery, death, lockdown and economic losses among minority and majority populations. A striking feature of the COVID-19 pandemic is its highly unequal distribution among population subgroups within countries. In the USA, for example, the black population, non-white Hispanics, and other communities of color have suffered a much greater burden of the pandemic (U.S. Centers For Disease Control and Prevention (2020) and McNeil (2020)), suggesting that both structural and individual factors might be driving its dynamics. To investigate this latter hypothesis, we simulate our data and use difference-in-differences analysis to determine if the dynamics of COVID-19 outcomes differ for minorities and majorities in the presence and in the absence of segregation. We find that these dynamics vary less across ethnic groups when the society is ethnically integrated. However, segregation induces significant minority-majority inequalities in outcomes, with the direction of these effects depending on the identity of *patient zero* (or the *index patient*, the first individual to be infected), and the nature of the outcome. If patient zero is a minority individual, segregation increases lockdown rates and the economic costs of the pandemic for minorities relative to majorities but reduces their infection and death rates. If patient zero is a majority individual however, segregation has opposite effects, decreasing the lockdown rate and hence economic costs for the minority group, but increasing the rates of infection and death in this group. These results follow from the fact that individuals who are closer to patient zero are more likely to be confined earlier to minimize the spread of the disease under the optimal policy. This in turn results in relatively higher lockdown rates and economic costs in the group of patient zero, but in lower infection and death rates in this group. The analysis therefore indicates that segregation results in minorities bearing a greater burden of the disease and death during a pandemic like Covid-19 in the majority of scenarios regarding the starting point of the infection. More generally, our findings suggest that it is a combination of structural and individual factors that determine cross-group differences in outcomes.

Our paper is related to several recent studies. In the economics literature on COVID-19, the canonical SIR model has been generalized in several directions to address a variety of problems. Recent generalizations include among others, Acemoglu et al. (2020) who propose a multi-risk SIR model, Bethune & Korinek (2020) who study externalities of health interventions for infectious

diseases in SIS and SIR models, Alvarez et al. (2020), Eichenbaum et al. (2020), and Prem et al. (2020) who analyze optimal non-pharmaceutical controls in SIR models, Kuchler et al. (2020) and Harris (2020) who document the importance of social networks (e.g., Facebook) in the selection of targeted lockdown policies. While our model contains some of the ingredients of these other approaches, it differs in incorporating into the classical model two key elements, namely a lockdown variable and a network of contacts that is not necessarily *random*, and where agents are heterogeneous with respect to their positions. Most importantly, we introduce a *lexicographic approach* to the planning problem, whereby the social planner's objective is to determine the lockdown policy that contains the spread of the infection below an acceptable incidence level, and that minimizes the economic cost of the pandemic, in that order of priority. An appeal of this approach is to help avoid the difficult problem of assigning a precise monetary value to health and life, which allows a great deal of flexibility and clarity in how to design optimal policies, with precise health and economic goals in mind.

Our model also complements and extends Peng et al. (2020) by allowing a diffusion dynamic similar to Lloyd et al. (2006). Additionally, in our model, the lockdown variable affects both the infection transmission and economic production, which enables a transparent analysis of the trade-off between public health and economic prosperity, without having to assign a monetary value to health and life. Moreover, since our network structure is not necessarily random, we are able to develop new applications. In particular, we show how different measures of network centrality affect the probability of being sent into lockdown, deriving new implications for the optimal design of surveys on social distancing and network structure. Also, our analysis shows how segregation induces differential health and economic dynamics among minority and majority populations, and highlights the key role of patient zero in these dynamics.

The remainder of this paper is organized as follows. Section 2 presents the N-SIRD model with lockdown and a *fuzzy* network. Section 3 describes and solves the social planner's problem. In Section 4, we conduct simulation analyses to illustrate our theoretical findings. In Section 5, we discuss some policy implications of our results and offer concluding remarks. Technical theoretical derivations for the planning problem are provided in Appendix A. Additional simulation results are presented in Appendix B.

2 N-SIRD Model with Lockdown

In this section, we introduce a network SIRD model with lockdown. This model extends the classical SIR model (Kermack & McKendrick, 1927, 1932) by incorporating a death state, a lockdown variable, and a *non-random network* of physical contacts through which infection is likely to spread. We shall first describe the classical SIR model followed by the exposition of our model.

2.1 The Classical SIR Model

The SIR model separates a population that has a constant size, N, into three disjoint health classes which change in continuous time t:

$$S + I + R = N$$
, where,
 $S =$ Susceptible
 $I =$ Infected
 $R =$ Recovered.

We follow the convention in the epidemiological literature of dropping the time subscript of different states. We assume that an individual i is in each of the three different states with the following probabilities:

$$s_i = Prob.(i \in S)$$
$$x_i = Prob.(i \in I)$$
$$r_i = Prob.(i \in R).$$

We denote by \dot{s} , \dot{x} , and \dot{r} the derivative of these probabilities with respect to time. The SIR framework assumes *random* (uniform) mixing of infectious individuals with the rest of the population. Susceptible individuals contact other individuals in the population at a constant rate $\beta > 0$. At any period, the probability that an individual i is infected, x_i , increases at the rate βs_i due to new infections, while a fraction γ of the infected individuals recover. Therefore, the evolution of variables s_i , x_i , and r_i follows the following system of first-order ordinary differential equations

(ODE):

$$\dot{s}_i = -\beta s_i x_i \tag{1}$$

$$\dot{x}_i = \beta s_i x_i - \gamma x_i \tag{2}$$

$$\dot{r_i} = \gamma x_i. \tag{3}$$

The parameter β represents the expected amount of people an infected person infects per period. For instance, if we assume that the probability that an infected individual infects a susceptible person is p, and the average number of persons that a person is in contact with per period is c, then this individual will infect pc persons per period, i.e., $\beta = pc$. Given that $1/\gamma$ represents the number of days that an infected person has and can spread the virus, β/γ is the total number of persons an infected person infects. This number is the basic reproduction number R_0 in epidemiology.

2.2 The N-SIRD Model

The N-SIRD model extends the classical SIR model to incorporate the death state (D) and a network of physical contacts through which an infection is likely to spread.³ In addition to the susceptible, infected, and recovered states in the SIR model, the classical SIRD framework also includes the death state, D, for individuals who died from the disease, so that:

$$S + I + R + D = N.$$

We denote the probability that an individual i dies from the infection as

$$d_i = Prob.(i \in D)$$
, with $s_i + x_i + r_i + d_i = 1$

Let $\kappa > 0$ be the death probability, and \dot{d} the infinitesimal change in death probabilities over time. The evolution of variables s_i , x_i , r_i , and d_i in the classical SIRD model follows the following system

³Hethcote (2000) and a recent textbook by Brauer et al. (2012) present an overview of the class of SIRD models and some of their theoretical features in epidemiology. Anastassopoulou et al. (2020) and Fernández-Villaverde & Jones (2020) apply these models to analyze the possible outcomes of the current COVID-19 pandemic.

of equations:

$$\dot{s_i} = -\beta s_i x_i \tag{4}$$

$$\dot{x}_i = \beta s_i x_i - \gamma x_i - \kappa x_i \tag{5}$$

$$\dot{r}_i = \gamma x_i$$
 (6)

$$\dot{d}_i = \kappa x_i. \tag{7}$$

Like the SIR model, the SIRD model assumes random (uniform) mixing of infectious individuals with the rest of the population, with susceptible individuals contacting other individuals in the population at a constant rate $\beta > 0$. We modify this assumption by assuming physical contacts take place through a non-directed and non-random *fuzzy* network, A. This network is represented by the adjacency matrix $(A_{i,j})$, where $A_{ij} \in [0, 1]$ represents the *intensity* at which individuals iand j are connected in the network A. The intensity of the relationship between two individuals could be interpreted as the degree or frequency of interactions between these individuals. Our model therefore generalizes the binary model in which:

$$A_{ij} = \begin{cases} 1 & \text{if } i \text{ and } j \text{ are connected in } A \\ 0 & \text{if } (i \text{ and } j \text{ are not connected in } A) \text{ or } (i = j) \end{cases}$$

Our model accounts for *weak* and *strong* ties. An individual i can only interact with his direct neighbors in A. In the presence of a contact network A, equations (4)–(7) therefore change to the following system of first-order ODE:

$$\dot{s}_i = -\beta s_i \sum_{j \in N} (A_{ij} x_j) \tag{8}$$

$$\dot{x}_i = \beta s_i \sum_{j \in N} (A_{ij} x_j) - \gamma x_i - \kappa x_i$$
(9)

$$\dot{r_i} = \gamma x_i \tag{10}$$

$$\dot{d}_i = \kappa x_i. \tag{11}$$

Equations (8)–(11) show the spread over time of an epidemic in a fixed population of individuals through a social structure A. Remark that the N-SIRD model generalizes both the SIR and SIRD models. In fact, if for each $i, j \in N$, $A_{ij} = 1$, and $\kappa = 0$, the N-SIRD corresponds to the random and uniform mixing transmission infection in the canonical SIR model. If for each $i, j \in N$, $A_{ij} = 1$, and $\kappa > 0$, the N-SIRD models equals the SIRD model.

2.3 The N-SIRD Model with Lockdown

We now incorporate a lockdown variable into the N-SIRD model. This captures the fact that a social planner might decide to reduce the spread of the infection by enforcing a lockdown policy. We denote by L the lockdown state, so that:

$$S + I + L + R + D = N.$$

Denoting by $l_i = Prob.(i \in L)$ the probability that a random individual *i* is sent into lockdown, we have:

$$s_i + x_i + l_i + r_i + d_i = 1.$$

An individual *i* for which $l_i = 1$ is said to be sent into *complete* lockdown. Let us denote by \dot{l} the infinitesimal change in lockdown probabilities over time. The infection propagation in the N-SIRD model with the lockdown variable *l* is governed by the following nonlinear differential equation:

$$\dot{s}_i = -\beta [1 - l_i - x_i - r_i - d_i] (1 - l_i) \sum_{j \neq i} [A_{ij} (1 - l_j) x_j]$$
(12)

$$\dot{x}_i = \beta [1 - l_i - x_i - r_i - d_i] (1 - l_i) \sum_{j \neq i} [A_{ij} (1 - l_j) x_j] - (\gamma + \kappa) x_i$$
(13)

$$\dot{r_i} = \gamma x_i \tag{14}$$

$$d_i = \kappa x_i. \tag{15}$$

with the initial value:

$$s_i(0) > 0, \ x_i(0) > 0, \ r_i(0) > 0, \ d_i(0) > 0, \ \text{and} \ s_i(0) + x_i(0) + r_i(0) + d_i(0) = 1 - l_i(0)$$
 (16)

Following the first two equations (12) and (13) of the system, a susceptible individual i becomes infected only if: (a) she is not sent into complete lockdown ($l_i \neq 1$); and (b) she is not connected to an infected individual j who is not sent into complete lockdown ($A_{ij} > 0, x_j > 0$, and $l_j \neq 1$).

The proposition below states that the non-linear system of ODE (12)–(16) has a unique solution.

Proposition 1. The system of equations (12)-(16) has a unique solution $S^* = S^*(l, A, \beta, \gamma, \kappa)$.

Proof. Equations (12)-(16) describe a general first-order general ordinary differential equations (ODE). Let $i \in N$ and $X_i = (s_i, x_i, r_i, d_i)^T$, where T means "transpose". There exists a continuously differentiable function \mathbb{F}_i , such that $\dot{X}_i = \mathbb{F}_i(t, X_i)$. Consequently, the ODE admits a unique solution, $\mathcal{S}^*(l, A, \beta, \gamma, \kappa, X_0)$, thanks to the theorem of existence and uniqueness of a solution for first-order general ODE, where $X_0 = (s_i(0), x_i(0), r_i(0), d_i(0))$ is the initial value point, and $l = (l_i)_{i \in N} \in [0, 1]^n$ a lockdown policy.

3 The Planning Problem: Optimal Lockdown

The unique solution of the non-linear system of ODE (12)-(16) in section 2.3 depends on both the social network A and the lockdown variable l. The planning problem consists of choosing l optimally. A first approach to containing the spread of COVID-19 in many countries was to enforce a quasi-complete lockdown policy. While this approach has slowed the spread of the virus, its economic costs have been significant. Governments around the world have been implementing less costly alternatives consisting of sending only certain individuals into lockdown while letting others go back to work. This raises the question of whether an optimal lockdown policy exists, and, if it does, whether it is unique.

In this section, we answer this question for a social planner that *prioritizes* health over the economy, and we show that, under minimal conditions, there exists a unique optimally targeted lockdown policy. More formally, we assume that the social planner's problem consists of choosing the lockdown policy l that:

- 1. contains the infection *incidence* level (or the relative number of new infections) below a *tolerable* threshold λ ; and
- minimizes the economic costs of the infection to the entire society, in this order of priority.
 This lexicographic objective problem is formalized below.

Containing the spread of infection. Using (13), the first objective of the planner is to select a lockdown policy l such that:

$$\dot{x_i} \equiv \dot{x_i}(l) \le \lambda$$
, where λ is a non-negative parameter. (17)

Note that the system (12–17) admits at least one solution. In fact, consider the policy l where each individual is sent into complete lockdown, i.e, $l_i(t) = 1$ for all $i \in N$ and t. Then, $x_i = r_i = d_i = 0$ and $\dot{x}_i = 0$. Therefore, given any $\lambda \ge 0$, it follows that $\dot{x}_i(l) \le \lambda$. In practice, the upper bound of the parameter λ could be equal to the reproduction rate $R_0 = \beta/(\gamma + \kappa)$ for a planner who seeks to eventually eliminate the disease.

Minimizing the economic costs of lockdown. The planner's second-order objective is to minimize the economic costs of lockdown by choosing from the set of policies that satisfy the first objective the policy that maximizes the present discounted value of real income. At any given period t, each individual i possesses a capital level k_i , and a labor supply h_i . We assume, as in most SIR models, that individuals who recover from the infection are immune to the virus and must be released to the workforce. It follows that individuals in states S, I, and R are the only potential workers in the economy. The individual labor supply depends on individuals' health states and probability of being in the lockdown:

 $h_i = h(l_i, x_i, d_i)$, with h assumed to be continuous and differentiable in x_i , l_i , and d_i . (18)

We assume that individual economic productivity decreases with illness, death, and being in lockdown:

$$\frac{\partial h_i}{\partial l_i} \le 0, \ \frac{\partial h_i}{\partial x_i} \le 0, \text{ and } \frac{\partial h_i}{\partial d_i} \le 0$$
 (19)

Naturally, an individual who is working despite being infected and sick produces less compared to when this individual is healthy. Without loss of generality, we assume that capital is constant over time ($k_i(t) = k_i$, for each t), and labor is the only variable input in the production. A combination of capital and labor supply generates output y according to the following production function:

$$y_i = Y_i(k_i, h_i) = Y_i(k_i, l_i, x_i, d_i).$$
(20)

We assume that Y_i is continuous and differentiable in each of its input variables. Moreover we make the following natural assumptions:

$$\frac{\partial Y_i}{\partial k_i} > 0, \ \frac{\partial Y_i}{\partial l_i} \le 0, \ \frac{\partial Y_i}{\partial x_i} \le 0, \ \frac{\partial Y_i}{\partial d_i} \le 0, \text{ and } \frac{\partial Y_i^2}{\partial^2 v} \le 0, \text{ for } v \in \{k_i, l_i, x_i, d_i\}.$$
(21)

Other important variables of the problem include:

 w_i = the individual cost of one unit of labor p = the price per unit of output δ = the social planner's discount rate

The planner chooses $l \in [0,1]^n$ to maximize the aggregate surplus:

$$W(k, l, x, d) := \sum_{i \in N} W_i(k_i, l_i, x_i, d_i)$$

= $\sum_{i \in N} \left\{ \int_0^\infty e^{-\delta t} \left(pY_i(k_i, l_i, x_i, d_i) - w_i h(l_i, x_i, d_i) \right) dt \right\}$ (22)

The social planner's problem. Finally, using optimal control theory, we can formalize the social planner's problem as described below:

$$\begin{aligned} & \text{Maximize} \quad \int_{0}^{\infty} e^{-\delta t} \sum_{i \in N} \left\{ pY_{i}(k_{i}, l_{i}, x_{i}, d_{i}) - w_{i}h(l_{i}, x_{i}, d_{i}) \right\} dt \\ & \text{subject to} \quad \dot{x}_{i} = \beta [1 - l_{i} - x_{i} - r_{i} - d_{i}](1 - l_{i}) \sum_{j \neq i} [A_{ij}(1 - l_{j})x_{j}] - (\gamma + \kappa)x_{i} \\ & \dot{x}_{i} \leq \lambda, \ \lambda \geq 0 \\ & \dot{r}_{i} = \gamma x_{i} \\ & \dot{d}_{i} = \kappa x_{i} \\ & \dot{s}_{i} = -\beta [1 - l_{i} - x_{i} - r_{i} - d_{i}](1 - l_{i}) \sum_{j \neq i} [A_{ij}(1 - l_{j})x_{j}] \\ & \quad X_{0} \text{ given, with } s_{i}(0) + x_{i}(0) + r_{i}(0) + d_{i}(0) = 1 - l_{i}(0) \end{aligned} \end{aligned}$$

We have the following result.

Proposition 2. The social planner's problem (23) has a unique solution.

Proof. We denote $f_i = \beta[1 - l_i - x_i - r_i - d_i](1 - l_i) \sum_{j \neq i} [A_{ij}(1 - l_j)x_j] - (\gamma + \kappa)x_i$, and $W_i^p = pY_i(k_i, l_i, x_i, d_i) - w_ih(l_i, x_i, d_i)$. The function $l_i : t \longrightarrow l_i(t) \in [0, 1]$ is continuous. The function W_i^p , and the objective function in (23) are continuous and differentiable. Moreover, f_i and the right-hand sides of the laws of motion in (23) are all continuous and differentiable. It follows that the problem (23) admits a unique optimal path $\{l^*(t)\}$ of the control variable (and the states $\{x^*(t), r^*(t), d^*(t), s^*(t)\}$, given the initial conditions X_0 and the law of motion). \Box

Proposition 2 states the existence and uniqueness of a solution to the social planner's problem. However, determining a closed-form solution is intractable. To gain some insight into the optimal dynamic of the lockdown policy and the resulting dynamics of infection, recovery and death rates and cumulative economic loss, and how these dynamics depend both on the topology of the contact network and the infection incidence level that the society is willing to tolerate, we resort to simulations in the next section.⁴

4 A Simulation Analysis

The parameters of the model are chosen to match the dynamic of the infection and recent papers on COVID-19. Following Alvarez et al. (2020), we use data from the World Health Organization (WHO) made public through the Johns Hopkins University Center for Systems Science and Engineering (JHU CCSE). The parameter β , the probability that an infected individual infects another individual to whom he or she is connected is assumed to be 0.2. The lifetime duration of the virus is assumed to be 18 days (see Acemoglu et al. (2020) and the references therein). The proportion of recovered closed cases is around 70% for the USA, 93% for Germany, and 86% for Spain (JHU CCSE access on the 5 May 2020). We thus assume that the parameter governing the recovery of infected patient is given by $\gamma = 0.8/18$, and the parameter governing the death dynamic is given by $\kappa = 0.2/18$. For simplification, we consider in the simulation the following functional form for the labour function (h) and the production function (Y):

$$h_i(l_i, x_i, d_i) = (1 - (1 - \phi)x_i)(1 - l_i)(1 - d_i), \ \phi \in [0, 1]$$
(24)

$$Y_i(k_i, l_i, x_i, d_i) = k_i^{\alpha} \left\{ (1 - (1 - \phi)x_i)(1 - l_i)(1 - d_i) \right\}^{1 - \alpha},$$
(25)

where ϕ represents the rate of change in productivity when an individual is infected. Using (24):

$$\frac{\partial h}{\partial l_i} = -(1 - (1 - \phi)x_i)(1 - d_i) \le 0$$
(26)

$$\frac{\partial h}{\partial x_i} = -(1-\phi)(1-l_k)(1-d_i) \le 0$$
(27)

$$\frac{\partial h}{\partial d_i} = -(1 - (1 - \phi)x_i)(1 - l_i) \le 0$$
(28)

⁴In the appendix, we extend the analysis of problem (23) that proves useful in showing how we obtain our simulated results.

With (25), and each of the equation (26), (27), and (28), it straightforward to show that the conditions (19) and (21) on h and Y, respectively, are satisfied.

In all the simulations, we consider $\phi = 1$ and we have a stationary working population such that $h_i(l_i, x_i, d_i) = (1 - l_i)$. As for the surplus function, we assume that $\alpha = 1/3$, $p \in [1, 1.25]$, w = p/3 and the level of capital is the same for all individual at all time period and normalized to $k_i = 1$. The annual interest rate is assumed to be equal to 5%.⁵

We represent the simulation results in a two-dimensional graphic, with days (or periods) in the horizontal axis, and the percentage of population affected for the variable (infection, lockdown, or death) illustrated on the vertical axis. In each period, a point in the graphic represents the average value of individual probabilities. For the economic cost, the vertical axis represents the percentage of economic loss relative to the economy without the pandemic.

In the analyses that follow, we illustrate: (a) how network configuration affects the dynamics of lockdown, health and economic costs (section 4.1); (b) the trade-off between the *tolerated* infection incidence level and the economy (section 4.2); (c) how network centrality affects individual lockdown probability (section 4.3); and (d) how segregation and the identity of the patient zero (the first individual to be infected) induce differential outcomes among minority and majority populations in a society (section 4.4).

4.1 Illustration I: The Role of Network Configuration

In this first illustration of our theoretical analysis, we show how the structure of the contact network affects the optimal lockdown policy and the resulting dynamic of infection and death rates and economic cost, for a given infection incidence level. For the sake of concreteness, we contrast two popular forms of networks, namely a *star network* (Graph (a) in Figure 2) and a *small-world network* (Graph (b) in Figure 2). These networks can be viewed as representing two societies of 10 individuals each, that are identical in all ways except the configuration of their contact network.

In simulation, we assume that the incidence level is $\lambda = 0.01$. The simulation results lead to the respective lockdown policies represented in Figure 3a for these two societies. The dynamic of

⁵The values of the parameters of the production function are chosen for illustration purposes. Thus, quantitative outcomes of the model should be interpreted with caution.

Figure 2: Simple Networks (n = 10)



lockdown is significantly different for each society. The cumulative proportion of the population sent into lockdown peaks and flattens much earlier in the star-network society than in the small-world-network society. While this cumulative proportion is a bit larger in the former society in the early period of the pandemic and plateaus at around 15 percent, it plateaus at 25 percent in the latter society. Similarly, the dynamic of the infection rate is very different across the two societies (Figure 3b), with the star-network society ultimately having a much lower infection rate. The lower lockdown and infection rates in the star-network society are simply explained by the fact that optimal lockdown simply requires isolating the hub, and once the hub is isolated, the infection can no longer spread from one individual to another individual. The situation is different in the small-world network society, where several individuals have to be isolated to contain the infection below a chosen incidence level.

Similar to the dynamics of lockdown and infection, the dynamics of the death rate (Figure 3d) and the lost economic surplus (Figure 3c) are different across the two societies. Once again, the cumulative death rate and lost economic surplus due to the pandemic are ultimately lower in the star-network society.

This thought experiment sufficiently highlights the fact that network configuration should be a key factor in the design of optimal lockdown policy during a pandemic like COVID-19, and this has important implications for health dynamics and economic costs. Our analysis also suggests



Figure 3: Optimal Infection Dynamic in Simple Networks (n = 10)

that the wide range of variation in COVID-19 outcomes observed across countries and across communities within countries can be explained by differences in their network configuration.

4.2 Illustration II: Infection Incidence Control and Optimal Lockdown Policy—The Health-vs-Economy Trade-off

In the second illustration of our theoretical findings, we document the effect of varying the tolerated infection incidence level on the optimal lockdown policy and analyze the trade-off between the desired level of population health and the well-being of the economy. For this analysis, we consider an economy of n = 1000 agents connected through a small world network with $2 \times n$ edges. This network is simulated using Watts & Strogatz (1998)'s graph model approach. Figure 4 represents the dynamic of the infection, optimal lockdown, economic costs, and deaths for three different values of infection incidence λ : 0.01, 0.05, and 0.1.

Figure 4a illustrates that the optimal cumulative lockdown rate increases with lower infection incidence level. This rate is around 15 percent for an incidence level equal to 0.1 to 25 percent for an incidence of 0.05 to 40 percent for an incidence level of 0.01. What emerges from these numbers is that the relationship between the tolerated incidence level and the ultimate proportion of the population sent into lockdown is not linear. As the tolerated infection incidence level decreases, the fraction of the population sent into lockdown increases disproportionately.

The optimal lockdown policy resulting from a given tolerated infection incidence level translates into a corresponding dynamic of infection, death and economic cost. In particular, Figure 4b shows that a lower tolerated incidence level results in a lower infection and death rate (see Figure 4b and Figure 4d).

Figure 4c illustrates the trade-off between population health and the well-being of the economy. A lower tolerated infection incidence level induces a greater economic cost of the pandemic. Indeed, if the targeted level of infection incidence is low, more individuals must be sent to lockdown. Then, with a decrease in individuals' productiveness in the economy, the loss in terms of economic surplus is huge. For instance, when the tolerated incidence decreases from 0.1 to 0.05, the fraction of the economic surplus lost to the pandemic increases from around 7 percent to 14 percent; and a further decrease of the tolerated incidence level to 0.01 induces an surplus loss of around 23 percent. It follows that a greater level of health is achieved at the cost of the economy.



Figure 4: Optimal Lockdown Policy and Infection Dynamic

4.3 Illustration III: Network Centrality and Optimally Targeted Lockdown

Our third illustration highlights how lockdown policies can be optimally targeted at individuals based on their characteristics. The individual characteristic we consider is centrality in the contact network. In general, in a networked economy, certain agents occupy more central positions than others in the prevailing contact network. This can be due to a variety of reasons, including the distinct social and economic roles played by each individual. It is argued that individuals who occupy more central positions in networks are more likely to be infected and to spread an infection (see, for example, Pongou & Tondji (2018) and Rodrigues (2019)). This suggests that an optimal lockdown policy should be targeted at more central agents in a network. However, various measures of network centrality exist, and it is not clear which of these measures are more predictive in the context of a pandemic like COVID-19. Answering this question is essential, and it has important implications for how to optimally design surveys to collect data on social distancing behavior and network structure to curb an infection that spreads through contact networks.

In order to address this question, we consider four popular measures of network centrality: degree centrality, eigenvector centrality, betweenness centrality, and closeness centrality. The degree centrality for a vertex (or agent) in a network is measured by the number of direct connections that vertex has. The betweenness centrality for a vertex is the number of shortest paths that pass through this vertex. It therefore measures the extent to which nodes stand between each other in a network. The eigenvector centrality for a vertex is measured based on relative scores assigned to vertices in a network and reflects the notion that connections to high-scoring vertices are more important. For this reason, it is considered a measure of influence or prestige in a network. It is calculated as the inverse of the sum of the length of the shortest paths between that vertex and all other vertices in a network. It follows from these definitions that degree centrality is less based on network configuration than the other centrality measures.

To answer the question of how each of the aforementioned centrality measures predicts the probability of lockdown, we consider the same economy used to illustrate the health-economy trade-off in section 4.2. Agents in this economy are connected through a small world network

with $2 \times n$ edges. They occupy very distinct positions in this network, resulting in some agents being more central than others. For robustness, our simulation analysis assumes three different values for the tolerated infection incidence λ : 0.01, 0.05, and 0.1.

	λ	Degree		Betweness		Closeness		Eigenvector	
		corr	p-value	corr	p-value	corr	p-value	corr	p-value
	0.1	0.60	4.2e-100	0.58	1.3e-93	0.53	1.7e-76	0.53	5.6e-76
	0.05	0.67	2.9e-133	0.63	1.2e-112	0.58	4.6e-91	0.56	4.8e-86
	0.01	0.72	1.9e-160	0.67	7.5e-132	0.64	1.6e-114	0.60	8.4e-98
The p-value for each centrality measure is for the test of the hypothesis $H_0 \rho = 0$ vs $H_1 \rho \neq 0$									

Table 1: Correlation between measure of centrality and optimal lockdown probability

The results of our analysis are presented in Table 1. This table reports the correlation between each of our centrality measures and optimal lockdown probabilities for different values of the tolerated infection incidence. We find that all of these centrality measures positively correlate to the probability of lockdown under the optimal lockdown policy, and this correlation is pretty high and statistically significant as implies by the different p-value statistics. However, the predictive value of degree centrality is greater for all values of λ . These results have at least two practical and/or testable implications.

The first implication is that agents who are more central in the prevailing contact network should have a greater probability of being sent into lockdown. Moreover, in terms of the lockdown *timing*, more central agents should be confined earlier. Our findings do not imply that all agents should be sent into lockdown, as the goal of lockdown is simply to disconnect the contact network. While quasi-universal lockdown would achieve this goal, it may not be optimal. This finding highlights the limitations of quasi-universal lockdown policies such as those implemented in several countries around the world in the early period of COVID-19.

Our analysis suggests that only particular sectors of society should be shut down during a pandemic like COVID-19. These are sectors that attract large numbers of individuals, such as large shopping centers, airports and other public transportation infrastructure, schools, certain government buildings, entertainment fields, parks, beaches, among others. Our findings also

imply that lockdown should be targeted at social and economic hubs, including big cities and high-density areas within a city. Interestingly, this latter policy may be easier to implement in countries with a higher degree of government centralization, which would imply that infection spread is less likely to be contained in less centralized countries as coordination failure among multiple local social planners is likely. This latter prediction can be tested empirically.

Second, our findings have implications for the design of surveys to collect data on social distancing behavior and network structure during a pandemic like COVID-19. Indeed, the fact that degree centrality correlates more highly with the optimal lockdown probability than measures of centrality that are based on network structure means that information on the number of *direct* connections that an agent has in a network is more relevant for the design of lockdown policies than information on network configuration. Fortunately, information on the number of direct connections or close contacts is also much easier and less costly to collect than information on network configuration. Fortunately data on people's identity as well as on their direct and indirect contacts.

4.4 Illustration IV: Segregation

A striking feature of the COVID-19 pandemic is its highly unequal distribution among people of different ethnic and cultural backgrounds.⁶ In the USA, for example, African-Americans, Indigenous people, Hispanics, and other communities of color have suffered a much greater burden of the pandemic⁷, suggesting that both structural and individual factors might be driving its dynamics. We therefore ask the question of whether segregation is a cause of the differential dynamics of COVID-19 outcomes in multi-ethnic societies.

To answer this question, we simulate data to determine the extent to which segregation induces differential COVID-19 outcomes for minorities and majorities. We consider two economies involving a minority ethnic group and a majority ethnic group, and that only differ by their level of ethnic segregation. The first economy, represented by Graph (a) in Figure 5, is assumed to

⁶See, for example Aldridge et al. (2020), Barr et al. (2020), Cookson & Milne (2020), Rothschild (2020), Williamson et al. (2020), and Zhang et al. (2017).

⁷See, for example, U.S. Centers For Disease Control and Prevention (2020), McNeil (2020), APM Research Lab (2020), and Yaya et al. (2020).





be integrated, and the second economy, represented by Graph (b) Figure 5, is assumed to be segregated along ethnic lines.⁸ In simulation, we assume that the incidence level is $\lambda = 0.01$. At the initial period, a patient zero is infected. The effects of segregation on minority-majority differences is evaluated by computing the dynamic of the difference-in-differences (diff-in-diffs) estimate, for each outcome of interest. We use the following formula:

$$DiD_{V,t} = [(V_{S,mi,t} - V_{I,mi,t}) - (V_{S,ma,t} - V_{I,ma,t})],$$

where $V \in \{\text{Infection, Lockdown, Economist cost, Death}\}$, t is the day, S represents "segregated", I stands for "integrated", mi for minority group, and ma for majority group. $V_{S,mi,t}$ $(V_{S,ma,t} \text{ respectively})$ is the average probability of the variable of interest V for minority (majority) individuals in the segregated network at time t, while $V_{I,mi,t}$ ($V_{I,ma,t}$ respectively) is the average probability of the variable of interest V for minority (majority) individuals in the integrated network at time t. Below, we represent two typical simulation results from the data, one with individual 2 (from the minority group) as patient zero, and another with individual 9 (member of the majority group) as patient zero. All simulation results are presented in Appendix B and summarized in the analyses below.

⁸We note that these networks are *typical* representations of integrated and segregated societies. We also assume a small economy (15 agents). This is a deliberate choice that has several advantages. One important advantage is that it allows us to analyze how the identity of patient zero affects outcomes. Working with a large sample size would make this latter analysis intractable.





Patient Zero: Individual 2

0.35

(c) Dynamic of Economic Cost

0.22

(d) Dynamic of Death

We find that the effect of segregation on outcomes crucially depends on the identity of the patient zero. In 33 percent (or $\sim 1/3$) of the cases, segregation increases infection rates in the whole population, and it results in lower infections rates in 67 percent (or $\sim 2/3$) of the cases.⁹

⁹Note that the fact that segregation reduces infection rates in the majority of cases is not surprising. In fact, policies of lockdown being implemented in different countries around the world are able to reduce infection rates because they disconnect (or segregate) existing contact networks by partitioning the population between households. The main difference between lockdown-induced segregation and ethnic segregation is that the former





Patient Zero: Individual 9

(c) Dynamic of Economic Cost

(d) Dynamic of Death

However, segregation does not appear to affect death rates significantly (see Figures 6 and 7). Moreover, we do not find that segregation has a significant effect on the lockdown dynamic or overall economic surplus losses in the whole population.

Segregation induces significant minority-majority differences in outcomes. However, the direction of this effect depends on the identity of patient zero, and it varies across outcomes. When is identity-blind (or neutral) unlike the latter. patient zero belongs to the majority group (for example, individual 9), segregation generally increases infection and death rates among minorities, but results in lower lockdown and economic costs in this group; see Figure 8. If patient zero is a minority individual instead (for example, individual 2), segregation has the opposite effects, increasing the economic costs of the pandemic for minorities relative to majorities, and reducing their infection and death rates; see Figure 9. It follows that segregation carries important cross-group externalities. These results follow from the fact that individuals who are closer to patient zero are more likely to be confined earlier to minimize the spread of the disease under the optimal policy. This in turn results in relatively higher lockdown rates and economic costs in the group of patient zero, but in lower infection and death rates in this group.

The analysis therefore tends to suggest that if patient zero is chosen randomly, implying that a majority individual is more likely to be the first person to be infected, ethnic segregation is likely to increase infection and death rates among minority populations, although it will induce a greater economic cost in the majority group.

The results therefore indicate that it is a combination of structural and individual factors that determine whether the burden of the pandemic is much greater in minority groups than in the majority group when the society is segregated, under the optimal policy.

5 Conclusion

This paper solves the problem of finding the optimal lockdown and reopening policy during a pandemic like COVID-19, for a social planner who *prioritizes* health over the economy. Agents are connected through a *fuzzy* network of contacts, and the planner's objective is to determine the policy that contains the spread of infection below a *tolerable* incidence level and that maximizes the present discounted value of real income, in that order of priority. We show theoretically that the planner's problem has a unique solution. The optimal policy depends both on the configuration of the contact network and the tolerated infection incidence level. Simulation-based comparative statics analyses highlight the crucial role of network structure in infection, spread and quantify the trade-off between the tolerable infection level and human losses on the one hand, and the economic losses due to the pandemic on the other hand.



Patient Zero: Individual 9

Figure 8: Effect of Segregation on Minority-Majority Differences in Outcomes: Diff-in-Diffs Analysis

(c) Economic Cost



The simulation exercises also show how different measures of network centrality correlate with the likelihood of being sent to lockdown, showing that degree centrality is more predictive than other measures of centrality. This result has implications for the optimal design of surveys to collect data on social distancing measures and network structure, and suggests that information on direct connections is more relevant than information on the whole configuration of a contact network. This result also suggests that priority in leaving lockdown should be given to professions in which employees have a limited number of contacts.





Patient Zero: Individual 2

Moreover, we apply the theoretical findings to analyse how segregation affects health and economic dynamics in minority and majority populations in ethnically segregated societies. We find that while segregation induces differences in the dynamics of infection, death, lockdown, and economic costs, the direction of these differences crucially depends on the identity of patient zero. Our results indicate that segregation results in minorities bearing a greater burden of disease and death, but lower economic costs, during a pandemic like Covid-19 in the majority of scenarios regarding the starting point of the infection. The analysis suggests that a combination of both structural and individual factors explain why minority populations seem to have suffered a greater burden of COVID-19 in countries like the USA.

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Appendix A: Theoretical derivations for the planning problem

We recall the planner's problem (23) below:

$$\begin{split} \text{Maximize} & \int_{0}^{\infty} e^{-\delta t} \sum_{i \in N} \left\{ pY_{i}(k_{i}, l_{i}, x_{i}, d_{i}) - wh(l_{i}, x_{i}, d_{i}) \right\} dt \\ \text{subject to} & \dot{x}_{i} = \beta [1 - l_{i} - x_{i} - r_{i} - d_{i}] (1 - l_{i}) \sum_{j \neq i} [A_{ij}(1 - l_{j})x_{j}] - (\gamma + \kappa) x_{i} \\ & \dot{x}_{i} \leq \lambda, \ \lambda \geq 0 \ (17) \\ & \dot{r}_{i} = \gamma x_{i} \\ & \dot{d}_{i} = \kappa x_{i} \\ & \dot{s}_{i} = -\beta [1 - l_{i} - x_{i} - r_{i} - d_{i}] (1 - l_{i}) \sum_{j \neq i} [A_{ij}(1 - l_{j})x_{j}] \\ & X_{0} \text{ given, with } s_{i}(0) + x_{i}(0) + r_{i}(0) + d_{i}(0) = 1 - l_{i}(0) \end{split}$$

We denote $f_i(k_i, l_i, x_i, d_i) = \beta [1 - l_i - x_i - r_i - d_i](1 - l_i) \sum_{j \neq i} [A_{ij}(1 - l_j)x_j] - (\gamma + \kappa)x_i$, and $W_i^p(k_i, l_i, x_i, d_i) = pY_i(k_i, l_i, x_i, d_i) - wh(l_i, x_i, d_i)$. The current Hamiltonian of problem (23) is given as:

$$\mathcal{H}_{c}(l, x, r, d, s, \mu^{1}, \mu^{2}, \mu^{3}, \mu^{4}) = \sum_{i \in \mathbb{N}} W_{i}^{p}(k_{i}, l_{i}, x_{i}, d_{i}) + \sum_{i \in \mathbb{N}} \mu_{i}^{1} f_{i} + \gamma \sum_{i \in \mathbb{N}} \mu_{i}^{2} x_{i} + \kappa \sum_{i \in \mathbb{N}} \mu_{i}^{3} x_{i} + \sum_{i \in \mathbb{N}} \mu_{i}^{4} [-f_{i} - (\gamma + \kappa) x_{i}].$$
(29)

Given the inequality constraints (17), we can augment the current Hamiltonian (29) into a Lagrangian function:

$$\mathcal{L}(l, x, r, d, s, \mu^{1}, \mu^{2}, \mu^{3}, \mu^{4}, \theta) = \sum_{i \in N} W_{i}^{p}(k_{i}, l_{i}, x_{i}, d_{i}) + \sum_{i \in N} \mu_{i}^{1}f_{i} + \gamma \sum_{i \in N} \mu_{i}^{2}x_{i} + \kappa \sum_{i \in N} \mu_{i}^{3}x_{i} + \sum_{i \in N} \mu_{i}^{4}[-f_{i} - (\gamma + \kappa)x_{i}] + \sum_{i \in N} \theta_{i}(\lambda - f_{i}).$$
 (30)

We can also rewrite (30) as:

$$\mathcal{L}(l, x, r, d, s, \mu^{1}, \mu^{2}, \mu^{3}, \mu^{4}, \theta) = \sum_{i \in N} W_{i}^{p}(k_{i}, l_{i}, x_{i}, d_{i}) + \sum_{i \in N} (\mu_{i}^{1} - \mu_{i}^{4} - \theta_{i})f_{i} + \gamma \sum_{i \in N} \mu_{i}^{2}x_{i} + \kappa \sum_{i \in N} \mu_{i}^{3}x_{i} - (\gamma + \kappa) \sum_{i \in N} \mu_{i}^{4}x_{i} + \lambda \sum_{i \in N} \theta_{i}.$$
 (31)
The first-order conditions for maximizing $\mathcal L$ call for, assuming interior solutions,

$$\frac{\partial \mathcal{L}}{\partial l_k} = 0, \ k \in N \tag{32}$$

as well as

$$\frac{\partial \mathcal{L}}{\partial \theta_k} = \lambda - \dot{x_k} \ge 0, \ \theta_k \ge 0, \ \theta_k \frac{\partial \mathcal{L}}{\partial \theta_k} = \theta_k (\lambda - \dot{x_k}) = 0, \ k \in N.$$
(33)

Finally, the other maximum-principle conditions that include the dynamics for state and costate variables are, for $k \in N$:

$$\dot{x_k} = \frac{\partial \mathcal{L}}{\partial \mu_k^1} \qquad \qquad \dot{r_k} = \frac{\partial \mathcal{L}}{\partial \mu_k^2} \qquad \qquad \dot{d_k} = \frac{\partial \mathcal{L}}{\partial \mu_k^3} \qquad \qquad \dot{s_k} = \frac{\partial \mathcal{L}}{\partial \mu_k^4} \qquad (34)$$

$$\dot{\mu_k^1} = \delta \mu_k^1 - \frac{\partial \mathcal{L}}{\partial x_k} \qquad \dot{\mu_k^2} = \delta \mu_k^2 - \frac{\partial \mathcal{L}}{\partial r_k} \qquad \dot{\mu_k^3} = \delta \mu_k^3 - \frac{\partial \mathcal{L}}{\partial d_k} \qquad \dot{\mu_k^4} = \delta \mu_k^4 - \frac{\partial \mathcal{L}}{\partial s_k}$$
(35)

Recall that $f_i(l_i, x_i, r_i, d_i) = \beta(1 - l_i - x_i - r_i - d_i)(1 - l_i) \sum_{j \neq i} [A_{ij}(1 - l_j)x_j] - (\gamma + \kappa)x_i$. Then,

$$\frac{\partial f_{i}}{\partial l_{k}} = \begin{cases}
-\beta(2(1-l_{i}) - x_{i} - r_{i} - d_{i})\sum_{j \neq i}[A_{ij}(1-l_{j})x_{j}] & \text{if } k = i \\
-\beta(1-l_{i} - x_{i} - r_{i} - d_{i})(1-l_{i})A_{ik}x_{k} & \text{if } k \neq i
\end{cases}$$

$$\frac{\partial f_{i}}{\partial x_{k}} = \begin{cases}
-\beta(1-l_{i})\sum_{j \neq i}[A_{ij}(1-l_{j})x_{j}] - (\gamma + \kappa) & \text{if } k = i \\
\beta(1-l_{i} - x_{i} - r_{i} - d_{i})(1-l_{i})(1-l_{k})A_{ik} & \text{if } k \neq i
\end{cases}$$

$$\frac{\partial f_{i}}{\partial r_{k}} = \frac{\partial f_{i}}{\partial d_{k}} = \begin{cases}
-\beta(1-l_{i})\sum_{j \neq i}[A_{ij}(1-l_{j})x_{j}] & \text{if } k = i \\
0 & \text{if } k \neq i
\end{cases}$$
(36)
$$(37)$$

We also recall that $W_i^p(k_i, l_i, x_i, d_i) = pY_i(k_i, l_i, x_i, d_i) - wh(l_i, x_i, d_i)$. Therefore,

$$\frac{\partial W_i^p}{\partial l_k} = \begin{cases} p \frac{\partial Y_i}{\partial l_k} - w \frac{\partial h}{\partial l_k} & \text{if } k = i \\ 0 & \text{if } k \neq i \end{cases}$$
(39)

$$\frac{\partial W_i^p}{\partial x_k} = \begin{cases} p \frac{\partial Y_i}{\partial x_k} - w \frac{\partial h}{\partial x_k} & \text{if } k = i \\ 0 & \text{if } k \neq i \end{cases}$$
(40)

$$\frac{\partial W_i^p}{\partial r_k} = 0 \tag{41}$$

$$\frac{\partial W_i^p}{\partial d_k} = \begin{cases} p \frac{\partial Y_i}{\partial d_k} - w \frac{\partial h}{\partial d_k} & \text{if } k = i \\ 0 & \text{if } k \neq i \end{cases}$$
(42)

Therefore, using (33), we have the following equation:

$$\frac{\partial \mathcal{L}}{\partial l_k} = \sum_{i \in N} \frac{\partial W_i^p}{\partial l_k} + \sum_{i \in N} (\mu_i^1 - \mu_i^4 - \theta_i) \frac{\partial f_i}{\partial l_k}
= \frac{\partial W_k^p}{\partial l_k} + \sum_{i \in N} (\mu_i^1 - \mu_i^4 - \theta_i) \frac{\partial f_i}{\partial l_k} \text{ using (39)}
= p \frac{\partial Y_k}{\partial l_k} - w \frac{\partial h}{\partial l_k} + \sum_{i \in N} (\mu_i^1 - \mu_i^4 - \theta_i) \frac{\partial f_i}{\partial l_k}$$
(43)

Hence, using the first-order conditions (32), equation (43) becomes:

$$0 = p \frac{\partial Y_k}{\partial l_k} - w \frac{\partial h}{\partial l_k} + \sum_{i \in N} (\mu_i^1 - \mu_i^4 - \theta_i) \frac{\partial f_i}{\partial l_k}.$$
(44)

Using the other conditions from (35) and using (40):

$$\dot{\mu_k^1} = \delta\mu_k^1 - \frac{\partial\mathcal{L}}{\partial x_k} = \delta\mu_k^1 - p\frac{\partial Y_k}{\partial x_k} + w\frac{\partial h}{\partial x_k} - \gamma\mu_k^2 - \kappa\mu_k^3 + (\gamma + \kappa)\mu_k^4 - \sum_{i \in N} (\mu_i^1 - \mu_i^4 - \theta_i)\frac{\partial f_i}{\partial x_k}.$$
 (45)

Similarly, using (35), we get:

$$\dot{\mu_k^2} = \delta \mu_k^2 - \frac{\partial \mathcal{L}}{\partial r_k} = \delta \mu_k^2 - \sum_{i \in N} (\mu_i^1 - \mu_i^4 - \theta_i) \frac{\partial f_i}{\partial r_k} \text{ using } (41),$$
(46)

$$\dot{\mu_k^3} = \delta\mu_k^3 - \frac{\partial\mathcal{L}}{\partial d_k} = \delta\mu_k^3 - p\frac{\partial Y_k}{\partial d_k} + w\frac{\partial h}{\partial d_k} - \sum_{i\in N}(\mu_i^1 - \mu_i^4 - \theta_i)\frac{\partial f_i}{\partial d_k} \text{ using } (42), \quad (47)$$

and

$$\dot{\mu}_{k}^{4} = \delta \mu_{k}^{4} - \frac{\partial \mathcal{L}}{\partial s_{k}} = \delta \mu_{k}^{4}, \text{ since } \frac{\partial \mathcal{L}}{\partial s_{k}} = 0.$$
(48)

Appendix B: Integrated vs. Segregated Networks Simulation Results



Figure 10: Dynamics of Outcomes under the Optimal Lockdown Policy: Whole Population

Patient Zero: Individual 1



Figure 11: Dynamics of Outcomes under the Optimal Lockdown Policy: Minority Group (1 to 5)



Patient Zero: Individual 1

(c) Dynamic of Economic Cost

Figure 12: Dynamics of Outcomes under the Optimal Lockdown Policy: Majority Group (6 to 15)



Figure 13: Effect of Segregation on Minority-Majority Differences in Outcomes: Diff-in-Diffs Analysis



Figure 14: Dynamics of Outcomes under the Optimal Lockdown Policy: Whole Population



Patient Zero: Individual 2

(c) Dynamic of Economic Cost

Figure 15: Dynamics of Outcomes under the Optimal Lockdown Policy: Minority Group (1 to 5)



Patient Zero: Individual 2

(c) Dynamic of Economic Cost

Figure 16: Dynamics of Outcomes under the Optimal Lockdown Policy: Majority Group (6 to 15)



Patient Zero: Individual 2

44





Figure 18: Dynamics of Outcomes under the Optimal Lockdown Policy: Whole Population



Patient Zero: Individual 3

(c) Dynamic of Economic Cost

Figure 19: Dynamics of Outcomes under the Optimal Lockdown Policy: Minority Group (1 to 5)



Patient Zero: Individual 3

(c) Dynamic of Economic Cost

Figure 20: Dynamics of Outcomes under the Optimal Lockdown Policy: Majority Group (6 to 15)







Figure 22: Dynamics of Outcomes under the Optimal Lockdown Policy: Whole Population



Patient Zero: Individual 4

(c) Dynamic of Economic Cost

Figure 23: Dynamics of Outcomes under the Optimal Lockdown Policy: Minority Group (1 to 5)



Patient Zero: Individual 4

(c) Dynamic of Economic Cost

Figure 24: Dynamics of Outcomes under the Optimal Lockdown Policy: Majority Group (6 to 15)



Figure 25: Effect of Segregation on Minority-Majority Differences in Outcomes: Diff-in-Diffs Analysis



Figure 26: Dynamics of Outcomes under the Optimal Lockdown Policy: Whole Population



Patient Zero: Individual 5

(c) Dynamic of Economic Cost

Figure 27: Dynamics of Outcomes under the Optimal Lockdown Policy: Minority Group (1 to 5)



Patient Zero: Individual 5

(c) Dynamic of Economic Cost

Figure 28: Dynamics of Outcomes under the Optimal Lockdown Policy: Majority Group (6 to 15)



Patient Zero: Individual 5

(c) Dynamic of Economic Cost





Figure 30: Dynamics of Outcomes under the Optimal Lockdown Policy: Whole Population



Patient Zero: Individual 6

(c) Dynamic of Economic Cost

Figure 31: Dynamics of Outcomes under the Optimal Lockdown Policy: Minority Group (1 to 5)



Patient Zero: Individual 6

Figure 32: Dynamics of Outcomes under the Optimal Lockdown Policy: Majority Group (6 to 15)



Patient Zero: Individual 6

(c) Dynamic of Economic Cost





Figure 34: Dynamics of Outcomes under the Optimal Lockdown Policy: Whole Population



Patient Zero: Individual 7

(c) Dynamic of Economic Cost

Figure 35: Dynamics of Outcomes under the Optimal Lockdown Policy: Minority Group (1 to 5)



Figure 36: Dynamics of Outcomes under the Optimal Lockdown Policy: Majority Group (6 to 15)



Patient Zero: Individual 7

(c) Dynamic of Economic Cost





Figure 38: Dynamics of Outcomes under the Optimal Lockdown Policy: Whole Population



Patient Zero: Individual 8

(c) Dynamic of Economic Cost

Figure 39: Dynamics of Outcomes under the Optimal Lockdown Policy: Minority Group (1 to 5)



Figure 40: Dynamics of Outcomes under the Optimal Lockdown Policy: Majority Group (6 to 15)



Patient Zero: Individual 8

(c) Dynamic of Economic Cost









Patient Zero: Individual 9

(c) Dynamic of Economic Cost

Figure 43: Dynamics of Outcomes under the Optimal Lockdown Policy: Minority Group (1 to 5)


Figure 44: Dynamics of Outcomes under the Optimal Lockdown Policy: Majority Group (6 to 15)





Figure 45: Effect of Segregation on Minority-Majority Differences in Outcomes: Diff-in-Diffs Analysis





Figure 47: Dynamics of Outcomes under the Optimal Lockdown Policy: Minority Group (1 to 5)



Patient Zero: Individual 10

75

Figure 48: Dynamics of Outcomes under the Optimal Lockdown Policy: Majority Group (6 to 15)



Patient Zero: Individual 10

(c) Dynamic of Economic Cost





Figure 50: Dynamics of Outcomes under the Optimal Lockdown Policy: Whole Population



Patient Zero: Individual 11

Figure 51: Dynamics of Outcomes under the Optimal Lockdown Policy: Minority Group (1 to 5)



Patient Zero: Individual 11

(c) Dynamic of Economic Cost

Figure 52: Dynamics of Outcomes under the Optimal Lockdown Policy: Majority Group (6 to 15)











(c) Dynamic of Economic Cost

Figure 55: Dynamics of Outcomes under the Optimal Lockdown Policy: Minority Group (1 to 5)



Patient Zero: Individual 12

Figure 56: Dynamics of Outcomes under the Optimal Lockdown Policy: Majority Group (6 to 15)



Patient Zero: Individual 12

(c) Dynamic of Economic Cost





Figure 58: Dynamics of Outcomes under the Optimal Lockdown Policy: Whole Population



Patient Zero: Individual 13

(c) Dynamic of Economic Cost

Figure 59: Dynamics of Outcomes under the Optimal Lockdown Policy: Minority Group (1 to 5)



Figure 60: Dynamics of Outcomes under the Optimal Lockdown Policy: Majority Group (6 to 15)











Figure 63: Dynamics of Outcomes under the Optimal Lockdown Policy: Minority Group (1 to 5)



Patient Zero: Individual 14

(c) Dynamic of Economic Cost

Figure 64: Dynamics of Outcomes under the Optimal Lockdown Policy: Majority Group (6 to 15)



Patient Zero: Individual 14

(c) Dynamic of Economic Cost





Figure 66: Dynamics of Outcomes under the Optimal Lockdown Policy: Whole Population



Patient Zero: Individual 15

(c) Dynamic of Economic Cost

Figure 67: Dynamics of Outcomes under the Optimal Lockdown Policy: Minority Group (1 to 5)



Patient Zero: Individual 15

95

Figure 68: Dynamics of Outcomes under the Optimal Lockdown Policy: Majority Group (6 to 15)



Patient Zero: Individual 15

(c) Dynamic of Economic Cost



