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Presentation Title

Application Costs as a Screening Instrument in Decentralized Matching

Abstract

We consider decentralized matching in a two-sided market of employers and employees (universities and students) with application costs and limited budgets. Students choose whether they should take the risk of applying to more prestigious school (with some probability of rejection) or make a safe choice. We show that application costs set by universities with uncertain capacity may be treated as a screening instrument in order to attract only strong students. Also, we find conditions for equilibria when costs are negligible (Econ PhD programs for European universities), costs are a substantial part of the budget (programs in the US), costs imply exploding offers (the worse university tries to “steal” the better student), in addition to other equilibria.

Keywords

Decentralized matching; non-cooperative game theory; school choice; screening; exploding offers

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