

A search model of two-sided matching with terms of trade

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Abstract

This paper studies a search model of two-sided matching with terms of trade. In a market reside heterogenous sellers and buyers. Agents search for trading partners and meet bilaterally in a random fashion. The question of who trades with whom, besides the terms of trade, must be answered. We seek decentralized market equilibrium with search frictions. We show that the set of equilibria has a lattice property and that when search costs are sufficiently small decentralized market equilibria becomes identical to centralized market equilibria (the core).

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