

Repeated Matching Market with Transfers and Constraints*

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Abstract: We study repeated job matching problems with monetary transfers and quota constraints. Workers are short-lived and stay in this market for only one period, while firms are long-lived and interact under perfect public monitoring. Even if a recommended matching is not stable in the sense of Gale and Shapley (1962), given a “carrot and stick”, firms are motivated by a credible punishment in the future, and therefore follow the recommended matching. Given a history that contains matchings by the present period, a matching process will decide a matching for now. A matching process is self-enforcing if no coalition of a firm and workers can profitably deviate. We first show that if there is a stable matching, then there is also a self-enforcing matching process. Under additively separable utility functions and some upper-bound constraints, stable matchings always exist. Therefore, self-enforcing matching processes exist regardless of how patient the firms are. Finally, for quasi-linear utility functions that allow for complementarities, we provide a sufficient condition for the existence of a self-enforcing matching process under general constraints.

Keywords: Two-sided matching, Dynamic matching, Self-enforcement, Stability, Constraints.

JEL Classification: C73, C78, D47

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