Matching Function and Matching Market

Pascal Michaillat
https://www.pascalmichaillat.org/t5.html
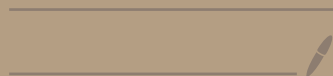
Matching function

Aggregate function ($\sim$ production function)

- Simple, well behaved, depends on a few aggregate variables

- Summarize a complex trade process that occurs on most markets

- Complexity of trade requires sellers/buyers to exert effort to trade.

  - firms spend time/money on <u>recruiting</u>

  - workers spend time/effort searching for job (<u>Linked In</u>)

  - consumers do market research (<u>Yelp</u>, Google, Wirecutter, Tripadvisor)

  - firms spend money on <u>marketing</u>, advertising

- With matching function: bilateral monopoly

  $\longrightarrow$ can assume a <u>price norm</u>

  $\longrightarrow$ can be much more realistic