Signaling in Matches

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Abstract

I study a problem of signaling in matches whereby, when deciding to form a group, individuals consider not only how the collaboration might enhance their productive output, but also what the outcome of the group production signals about their own individual ability. This problem of matching to signal is a significant departure from traditional matching models because the signaling value of a match in itself depends on the conjectured matching pattern held by the observer. When agents match only based on the productive outcome, there is a unique equilibrium, with positive assortative matching when the match value function is supermodular and negative assortative matching when it is submodular. I show that, when signaling value is incorporated, multiple equilibria can emerge, as well as equilibrium matching patterns that are not "in line" with the modularity of the match value function.

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