Segregation and Disaggregated Sorting

Paula Onuchic, Nikhil Vellodi*

July, 2019

Abstract

We study a matching model where heterogeneous individuals belong to pools, and searching for a match outside one's pool is more costly than within it. As search costs decrease (within and outside each pool), the incentives of intermediate types to "search up" increases more than for low types. As such, intermediate types become more likely to match with higher types, while low types refrain from searching outside of their pool and match more often with other low types. We relate this result to the empirical observation (Eika, Mogstad and Zafar, 2019[1]) that, in the United States, matching at the top of the skill distribution has become less assortative over the last 60 years, while matches at the bottom of the skill distribution have become more assortative in that same period. In a separate empirical section, we interpret segregation as a measure of search costs across pools within the same commuting zone and validate predictions of the model.

*Onuchic: New York University. Vellodi: Paris School of Economics

[1]Eika, L., M. Mogstad, and B. Zafar, (2019) "Educational Assortative Mating and Household Income Inequality," *Journal of Political Economy*, **127**: 2795-2835.