Matching Cost

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Assumption. Each visit requires $p \in (0,1)$ services

Service purchased
- consumed. C (deliver utility)
- used for matching & conduct visits

Service consumed ≤ Service purchased

Why do we introduce a cost of visits?

A Realism: It is in general costly for customers to find an appropriate supplier.
- Customers hire middlemen for visits & to find suppliers (real estate agent, staffing service, brokers, travel agents)
- Cost of visits in terms of time & effort
- Cost of visit can also be a service purchased as a trial which does not deliver utility -> bad hair cut, bad meal, bad coffee ...

B Theoretical symmetry: sellers have to spend their day in the shop waiting for customers
- Selling services is costly to sellers: it requires to commit services. Through the cost p, visits are costly to buyers. So on both sides of the market, finding a trading partner

is costly → symmetry. (The costs do not have to be the same → will use evidence to calibrate costs)

- Sellers are always happy to sell a service: they derive a surplus from the sale. With a visit cost, buyers are also always happy to buy a service: they also derive a surplus. So both sides derive a surplus from trade: symmetry & realism -

- In the welfare analysis, we will obtain an interim efficient allocation b/c slack & tightness generate a cost on both sides of the market. Without the visit cost, we would obtain a boundary efficient allocation. This is a special case here too, but not the general case (Interim solutions are always preferable — more satisfying)

Why do we measure the visit cost in terms of service?

A Tractability: No need to introduce an additional good.

B. Portability: Can apply the same modelling strategy if the buyer is a firm (of intermediate goods) or the government

C. Symmetry: On the labor market, the cost of recruiting is a labor cost. Here the cost of buying services is a service cost