MATCHING IN INFORMAL FINANCIAL INSTITUTIONS

Jan Eeckhout  
University of Pennsylvania

Kaivan Munshi  
Brown University

Abstract

This paper analyzes an informal financial institution that brings heterogeneous agents together in groups. We analyze decentralized matching into these groups, and the equilibrium composition of participants that consequently arises. We find that participants sort remarkably well across the competing groups, and that they re-sort immediately following an unexpected exogenous regulatory change. These findings suggest that the competitive matching model might have applicability and bite in other settings where matching is an important equilibrium phenomenon. (JEL: O12, O17, G20, D40)