Discussion of "Competing by Restricting Choice: The Case of Matching Platforms" by Halaburda, Piskorski and Yildirim

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July 13, 2017

Motivation

- Some matching platforms restrict your ability to match, and charge more than unrestricted platforms
- Psychological explanation is one answer, but this and other related answers have a problem: Couldn't I just self-restrict my own choices for free?
- The answer must be that I get value from *other people's choices* being limited
- Intuitively, match quality is bounded above, but $\lim_{N\to\infty} Pr(accept|N) \to 0$. So as the number of competitors increases to infinity, the expected value of participation decreases to the reservation price $\mathfrak{a}$

A Very Good Platform for One Side

Intuition is even clearer if the market is asymmetrical (so we can increase choice value for one side while only imposing competition problems on the other)

What Drives This Result?

Key equation:

$$EU[\mathfrak{a}|N] = [1 - (1 - P(reject|N))(1 - G^N(\mathfrak{a}))]\mathfrak{a} + \qquad (1)$$
$$(1 - P(reject|N))N \int_{\mathfrak{a}}^{1}(G^{N-1}(\Lambda)g(\Lambda)\Lambda d\Lambda)$$

The authors ask how value of a platform varies with N, the number of competing matchees, and $\mathfrak{a}$ the reservation price.

For someone with $\mathfrak{a} = 0$, every additional competitor reduces my odds of matching by $\frac{1}{N+2} - \frac{1}{N+1}$

But the value of a match increases by

$$(N+1)\int_0^1 (G^N(\Lambda)g(\Lambda)\Lambda d\Lambda) - N\int_0^1 (G^{N-1}(\Lambda)g(\Lambda)\Lambda d\Lambda) \qquad (2)$$

If the distribution is 'thin' above my current expected match quality (i.e. (2) is small) I want less competition.

Paper Strengths:

- Very cool, exploration of novel reason that people might prefer less choice
- Great, important, extensions showing the model still works with multiple tentative offers and (somewhat) vertical match quality
- Buzzing with ideas for extensions and follow ups
- Very cleanly described and articulated.

Another setting: Choosing a small or big pond?

- Benefit of small pond: More likely to match with (any) mentor
- Cost of small pond: Unlikely to find the ideal mentor there

In the small pond/big pond setting N is directly tied to $\hat{a}_1$ and $\hat{a}_2$ rather than being an independent choice. (i.e. $N \leq zG(\mathfrak{a}_1) - zG(\mathfrak{a}_2)$)

A Potential Followup Idea

When I first read the paper abstract, I immediately began thinking about *adverse selection* in this context.

If I'm desperate I'm happy to be randomly assigned a partner for a school project. Except... do I want to be randomly matched with a desperate person?

- Suppose those with very low α are more likely to have an, unobservable ex-ante, negative effect on match quality
- Then the 'desperate' types who sort into the restricted market would signal something negative about themselves
- The marginal people in the restricted platform may move into the less restricted one
- Does the market unravel? Seems very likely if the effect is large enough.

Other Open Questions and Unexplored Implications:

- A market with infinite potential matches must leave individuals with a 0 probability of matching. But Match.com seems to have (practically) infinite possible matches - how do they compete?
- Heavily right tailed distributions should offer more choice and vice versa. Can this be brought to the data?
- What happens when there is free entry in platforms? Would we have a continuum of platforms at decreasing prices for people of every α? How does this change is we limit $N \leq zG(\alpha_1) - zG(\alpha_2)$?
- Results assume that match quality is bounded. Do any results remain if think romantic matches follow a Pareto distribution?
- What if the platform allows individuals to pay for asymmetrical access?