Title: Stable Matching with Privately Observed Payments

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Area: Economics

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Abstract:

We consider a variant of the Assignment Game model of Shapley and Shubi (1971) where the matching of workers and firms is commonly observed but the division of surplus between a matched pair is privately observed only by the firm and the worker concerned. We define and apply a stability notion in this setting based on the iterative elimination of blocked matching outcomes which captures the idea that the absence of blocking pairs conveys no further information regarding the payoffs received by the other participants in the market. We show that the set of private payment stable matching outcomes always exists, the corresponding assignments are efficient in terms of maximizing total surplus, and the set is characterized by the worker optimal and firm optimal stable matching outcomes.

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